Part B, Origination Through Closing

Introduction

This part provides the requirements for originating conventional and government loans for sale to Fannie Mae.

B1, Loan Application Package

This subpart contains information concerning the documentation required in application packages for loans to be delivered to Fannie Mae and the allowable age of credit documents. It also includes a sample borrower authorization form.

B2, Eligibility

This subpart provides Fannie Mae eligibility policies.

B3, Underwriting Borrowers

This subpart contains borrower underwriting policies for conventional mortgage loans for sale to Fannie Mae.

B4, Underwriting Property

This subpart contains property eligibility and underwriting policies for conventional loans for sale to Fannie Mae.

B5, Unique Eligibility and Underwriting Considerations

This subpart contains unique eligibility and underwriting considerations. Where appropriate, references to Fannie Mae's standard underwriting policies and requirements are provided.

B6, Government Programs Eligibility and Underwriting Requirements

This subpart contains information on eligible government mortgage programs.

B7, Insurance

This subpart provides requirements for mortgage, title, and other types of insurance.

B8, Closing: Legal Documents

This subpart provides Fannie Mae's policies on documenting the loan closing process.

Subpart B1, Loan Application Package

Introduction

This subpart describes the documentation required in application packages for loans to be delivered to Fannie Mae. It describes the allowable age of credit documents and provides a sample of a borrower's signature authorization form.

Chapter B1-1, Application Package Documentation

Introduction

This chapter describes the documents that must be included in the loan application package, and provides a sample Blanket Authorization form. This chapter also contains information on the allowable age of credit documents and federal income tax returns.

B1-1-01, Contents of the Application Package (12/14/2022)

Introduction

This topic contains information on the contents of the application package, including:

- Documenting the Loan Application
- Requirements for the Loan Application Package
- Uniform Underwriting and Transmittal Summary and DU Underwriting Analysis Report

Documenting the Loan Application

A loan application must be documented on the *Uniform Residential Loan Application* (Form 1003). A complete, signed, and dated version of the final Form 1003 must always be included in the loan file. The final Form 1003 must reflect the income, assets, debts, and final loan terms used in the underwriting process. (See B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report for additional information about ensuring DU data accuracy and tolerances.)

If either the note or the security instrument and the final Form 1003 will be executed pursuant to a power of attorney in accordance with this Guide, then the initial Form 1003 must be personally signed by the borrower (except as provided below) and included in the loan file. See B8-2-03, Signature Requirements for Security Instruments, B8-3-03, Signature Requirements for Notes, and B8-5-05, Requirements for Use of a Power of Attorney, for additional information. However, a power of attorney may be used to execute both the initial and final Form 1003 in any of the following circumstances:

- a borrower is on military service with the United States armed forces serving outside the United States or deployed aboard a United States vessel, as long as the power of attorney
  - expressly states an intention to secure a loan on a specific property, or
  - complies with the requirements under the *VA Lender's Handbook* relating to powers of attorney for VA-insured mortgage loans,
- the attorney-in-fact or agent signs the security instrument in their personal capacity with regard to their individual ownership interest in the mortgaged property; or
- the lender determines such use is required by applicable law.

> **Note**: The terms "loan application" and "Form 1003" generally mean the same thing in this Guide. The term "online loan application" refers to the DU user interface (or the lender's loan origination system) where data is collected from the Form 1003, in addition to other loan data used in underwriting.

Requirements for the Loan Application Package

The table below provides the requirements for the loan application package.

✓	**The loan application package must include ...**
	A complete, signed, and dated version of the final Form 1003 (per the above requirements).
	A copy of the ratified sales agreement, if applicable.
	A copy of the *Supplemental Consumer Information Form* (Form 1103).
	Escrow/closing or settlement instructions, if applicable.
	Any other information or documentation used to verify, clarify, or substantiate information in the borrower's application.
	All other documentation that was used to make a prudent underwriting decision, including (but not limited to) the credit report, property appraisal and inspection reports, and project documents.

> **Note**: Any available technology may be used to produce copies of the documents in the loan file, such as a photocopier, facsimile machine, document scanner, or camera. Copies of documents provided by

> the borrower may be photos or scanned versions of the original documents and can be delivered to the lender in hardcopy or via email or other electronic means.

See Chapter A2-4: Loan Files and Records for additional information about the loan file.

Uniform Underwriting and Transmittal Summary and DU Underwriting Analysis Report

The *Uniform Underwriting and Transmittal Summary* (Form 1008) summarizes key data from the loan application package. Lenders use this information in reaching the underwriting decision. Form 1008 (or a similar document) must be retained in the mortgage file for manually underwritten mortgage loans. Lenders may, but are not required to, retain Form 1008 for loans underwritten with DU.

For loans underwritten with DU, the final DU Underwriting Analysis Report must be retained in the mortgage file.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2022-09	October 05, 2022
Announcement SEL-2022-05	June 01, 2022
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2019-05	June 05, 2019
Announcement SEL-2019-03	April 03, 2019

B1-1-02, Blanket Authorization Form (04/01/2009)

Introduction

This topic provides the Blanket Authorization form.

- Blanket Authorization Form

Blanket Authorization Form

The lender obtains the borrower's signature on the following Blanket Authorization form to obtain the documentation needed to evaluate the borrower's creditworthiness.

> This borrower-signed document gives the lender blanket authorization to request the information needed to document the borrower's creditworthiness. I hereby authorize __________________________ (the "lender") to verify my past and present employment earnings records, bank accounts, stock holdings, and any other asset balances that are needed to process my mortgage loan application. I further authorize _____________________ (the "lender") to order a consumer credit report and verify other credit information, including past and present mortgage and landlord references. It is understood that a photocopy of this form also will serve as authorization. The information the lender obtains is only to be used in the processing of my application for a mortgage loan.

The lender attaches a copy of the Blanket Authorization form to each Form 1005/Form 1005(S) or Form 1006/Form 1006(S) sent to a verifying institution. The information must be requested directly from the institution. The completed form(s) must be signed and dated, and must be sent directly from the verifying institution.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns (05/03/2023)

Introduction

This topic contains information on the allowable age of credit documents and federal income tax returns.

- Allowable Age of Credit Documents

- Allowable Age of Federal Income Tax Returns

Allowable Age of Credit Documents

Credit documents include credit reports and employment, income, and asset documentation. For all mortgage loans (existing and new construction), the credit documents must be no more than four months old on the note date. When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than four months old on the note date. If the credit documents are older than allowed, the lender must update them. For age requirements related to appraisals, see B4-1.2-04, Appraisal Age and Use Requirements. Also see B2-3-05, Properties Affected by a Disaster for exceptions to the allowable age of credit documents for loans impacted by a natural disaster.

Allowable Age of Federal Income Tax Returns

For some types of sources of income, Fannie Mae requires lenders to obtain copies of federal income tax returns (personal returns and, if applicable, business returns). The “most recent year’s” tax return is defined as the last return scheduled to have been filed with the IRS. For example,

If Today’s Date is....	Then the Most Recent Year’s Tax Return would be...
February 15, 2023	2021
April 16, 2023	2022
December 15, 2023	2022

The following table describes the requirements for documenting the most recent year's tax return based on the application date and disbursement date of the loan. The loan file must always include the last tax return filed by the borrower and the minimum number of years of tax returns required by B3-3.5-01, Income and Employment Documentation for DU or as noted in various sections of the *Selling Guide* for manually underwritten loans.

Application Date	Disbursement Date	Documentation Required

Application Date	Disbursement Date	Documentation Required
October 15 [1], [current year minus 1] to April 14[2], current year	October 15[1][current year minus 1] to April 14[2], current year	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.
	April 15[1], current year to June 30, current year	The most recent year's tax return is recommended; however, the previous year(s) is also acceptable. In the event the most recent year's tax return is not obtained, the loan file must include a completed and signed IRS Form 4506-C for transcripts of tax returns provided by the borrower to the lender.
	July 1, current year to October 14[2], current year	The most recent year's tax return is recommended; however, the previous year(s) is also acceptable. In the event the most recent year's tax return is not obtained, the lender must perform all of the following: • Obtain one of the following documents from the borrower: ∘ copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS, ∘ proof of the e-filing of Form 4868, or ∘ confirmation of electronic payment(s), including the confirmation number, of all or part of the estimated income taxes. • Review the total tax liability either reported on IRS Form 4868 or paid by the borrower and compare it with the borrower's tax liability from the most recent year obtained as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary for the lender to require the current returns in order to proceed. • Obtain IRS response from the filing of IRS Form 4506–C confirming that no transcripts are available for the applicable tax year. (Alternatively, lenders may, at their own discretion, rely on borrower-provided evidence that no transcripts are available for applicable tax years when that evidence is obtained directly from the IRS website). Note: Any documents provided by the borrower must clearly identify the source of information including identifying information in the Internet banner on the document.

Application Date	Disbursement Date	Documentation Required
April 15[1], current year to October 14[2], current year	April 15[1], current year to December 31, current year	
	January 1, [current year plus 1] to April 14[2], [current year plus 1]	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.

Exceptions

- For business tax returns, if the borrower's business uses a fiscal year (a year ending on the last day of any month except December), the lender may adjust the dates in the above chart to determine what year(s) of business tax returns are required in relation to the application date/disbursement date of the new mortgage loan.
- For loans with income validated by DU, lenders may rely on the age of tax transcript methodology provided by the service. See B3-2-02, DU Validation Service

1 Or the April/October filing dates for the year in question as published or extended by the IRS.

2 Or the day prior to the April/October filing dates for the year in question as published or extended by the IRS.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-04	May 03, 2023
Announcement SEL-2021-11	December 15, 2021
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2018-02	February 27, 2018

Subpart B2, Eligibility

Introduction

This subpart describes Fannie Mae’s mortgage, borrower, and property eligibility policies and occupancy type requirements.

Chapter B2-1, Mortgage Eligibility

Introduction

This chapter explains the requirements related to mortgage eligibility.

Section B2-1.1, Occupancy Types

B2-1.1-01, Occupancy Types (10/05/2022)

Introduction

This topic contains information on occupancy type requirements, including:

Overview

Fannie Mae purchases or securitizes mortgages secured by properties that are principal residences, second homes, or investment properties. For the maximum allowable LTV/CLTV/HCLTV ratios and credit score requirements for each occupancy type, see the *Eligibility Matrix.*

Principal Residence Properties

A principal residence is a property that the borrower occupies as their primary residence. The following table describes conditions under which Fannie Mae considers a residence to be a principal residence even though the borrower will not be occupying the property.

Borrower Types	Requirements for Owner Occupancy
Multiple borrowers	Only one borrower must occupy and take title to the property, except as otherwise required for mortgages that have guarantors or co-signers (see B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers on the Subject Transaction).

Borrower Types	Requirements for Owner Occupancy
Military service members	A military service member borrower currently on active duty and temporarily absent from their principal residence because of military service is considered to be an owner occupant. Lenders must verify the borrower's temporary absence from the subject property by obtaining a copy of the borrower's military orders. The military orders must evidence the borrower will be absent from the subject property as of the date the owner occupancy must be established as required by the security instrument. Loans that meet these requirements must be delivered with Special Feature Code 754.
Parents or legal guardian wanting to provide housing for their handicapped or disabled adult child	If the child is unable to work or does not have sufficient income to qualify for a mortgage on their own, the parent or legal guardian is considered the owner/occupant.
Children wanting to provide housing for parents	If the parent is unable to work or does not have sufficient income to qualify for a mortgage on their own, the child is considered the owner/occupant.

Second Home Properties

The table below provides the requirements for second home properties.

✓	Second Home Requirements
	must be occupied by the borrower for some portion of the year
	is restricted to one-unit dwellings
	must be suitable for year-round occupancy
	the borrower must have exclusive control over the property

✓	Second Home Requirements
	must not be rental property or a timeshare arrangement[1] If the lender identifies rental income from the property, the loan is eligible for delivery 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 occupancy requirement above).
	cannot be subject to any agreements that give a management firm control over the occupancy of the property
	must be underwritten in DU and receive an Approve/Eligible recommendation, with the exception of high LTV refinance loans required to be underwritten in accordance with the Alternative Qualification Path (see B5-7-03, High LTV Refinance Alternative Qualification Path).

An LLPA applies to certain loans secured by second homes. This LLPA is in addition to any other price adjustments that are otherwise applicable to the particular transaction. See the *Loan-Level Price Adjustment (LLPA) Matrix.*

Investment Properties

An investment property is owned but not occupied by the borrower. An LLPA applies to all mortgage loans secured by an investment property. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. See the *Loan-Level Price Adjustment (LLPA) Matrix.*

Loans secured by an investment property must be underwritten in DU and receive an Approve/Eligible recommendation, with the exception of high LTV refinance loans that are required to be underwritten in accordance with the Alternative Qualification Path (see B5-7-03, High LTV Refinance Alternative Qualification Path).

Defining Occupancy for a Group Home

Eligibility and pricing for group homes will be the same as currently provided under the terms and conditions established for principal residence, second home, or investment properties depending on the particular occupancy status of the borrower(s).

Investment properties that are or will be leased to business entities for use as a group home are eligible for purchase by Fannie Mae (provided all borrowers are individuals).

1 If the lender identifies rental income from the property, the loan is eligible for delivery 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 occupancy requirement above).

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-09	October 05, 2022
Announcement SEL-2022-05	June 01, 2022
Announcements SEL-2021-11	December 15, 2021
Announcement SEL-2021-03	April 07, 2021
Announcement SEL-2019-04	May 01, 2019
Announcement SEL-2019-02	March 6, 2019

Section B2-1.2, LTV, CLTV, HCLTV, and Subordinate Financing

B2-1.2-01, Loan-to-Value (LTV) Ratios (06/01/2022)

Introduction

This topic contains information on LTV ratios, including:

- Calculation of the LTV Ratio
- Sales Price and Appraised Value Used by DU
- Loan-Level Price Adjustments

Calculation of the LTV Ratio

The maximum allowable LTV ratio for a first mortgage is based on a number of factors including, the representative credit score, the type of mortgage product, the number of dwelling units, and the occupancy status of the property.

The following table describes the requirements for calculating LTV ratios for a first mortgage transaction. The result of these calculations must be truncated (shortened) to two decimal places, then rounded up to the nearest whole percent. For example:

- 94.01% will be delivered as 95%, and
- 80.001% will be delivered as 80%.

The rounding rules noted above also apply to the CLTV and HCLTV ratio calculations. Lenders' systems must contain rounding methodology that results in the same or a higher LTV ratio.

Underwriting Method	Type of Transaction	Calculation of the LTV Ratio[1]
Manual and DU	Purchase money transactions	Divide the original loan amount by the property value. (The property value is the lower of the sales price or the current appraised value.)
Manual and DU	Refinance transactions	Divide the original loan amount by the property value. (The property value is the current appraised value.)
Manual and DU	Co-op share loans	See *Calculating the LTV ratio for Co-op Share Loans* in B4-2.3-04, Loan Eligibility for Co-op Share Loans.
Manual and DU	Mortgages with financed mortgage insurance	Divide the original loan amount plus the financed mortgage insurance by the property value. (The property value is the lower of the sales price or the current appraised value.)

Note: The LTV ratio calculations shown above may differ for certain mortgage loans. For details on these differences, see B2-1.3-05, Payoff of Installment Land Contract Requirements; B5-2-03, Manufactured Housing Underwriting Requirements; B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions; B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties; B5-3.2-03, HomeStyle Renovation Mortgages: Collateral Considerations; B5-5.1-02, Community Seconds Loan Eligibility; B5-5.2-02, Loans with Resale Restrictions: Eligibility, Collateral and Delivery Requirements; B5-5.3-03, Shared Equity Transactions: Eligibility, Underwriting and Collateral Requirements; and B7-1-01, Provision of Mortgage Insurance.

Refer to the Eligibility Matrix for maximum allowable LTV ratios.

Sales Price and Appraised Value Used by DU

DU uses information in the loan application to determine the sales price and appraised value it uses to calculate the LTV, CLTV, and HCLTV ratios.

DU uses the amounts entered in the following data fields in the online loan application:

Sales price = Line A + Line B + Line C (in Section L4)

- Line A = Sales Contract Price (the sales price for purchase transactions, or the cost of construction for construction transactions).
- Line B = Improvements, Renovations, and Repairs (the cost of these items for HomeStyle Renovation transactions).
- Line C = Land Value (For certain construction or manufactured home transactions the cost or value of the land if the borrower acquired the lot separately).

Appraised value = Appraised Property Value (in Section 4a)

> **Note**: If the Appraised Property Value is not present, DU will use the Estimated Property Value. The Appraised Property Value must be entered (when available) and the loan casefile must be resubmitted.

Loan-Level Price Adjustments

An LLPA may apply to certain mortgages based on the loan-to-value (LTV) ratio and representative credit score. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. See the Loan-Level Price Adjustment (LLPA) Matrix.

1 As defined in the LTV ratio, the original loan amount is the amount of the loan as indicated by the note.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-05	June 01, 2022
Announcement SEL-2020-07	December 16, 2020

B2-1.2-02, Combined Loan-to-Value (CLTV) Ratios (12/04/2018)

Introduction

This topic contains information on CLTV ratios, including:

- Calculation of the CLTV Ratio
- Loan-Level Price Adjustments

Calculation of the CLTV Ratio

For first mortgage loans that are subject to subordinate financing, the lender must calculate the LTV ratio and the CLTV ratio. For first mortgage loans that are subject to a HELOC, see B2-1.2-03, Home Equity Combined Loan-to-Value (HCLTV) Ratios. For all other subordinate liens, see B2-1.2-04, Subordinate Financing for additional information.

The CLTV ratio is determined by dividing the sum of the items listed below by the lesser of the sales price or the appraised value of the property.

- the original loan amount of the first mortgage,
- the drawn portion (outstanding principal balance) of a HELOC, and
- the unpaid principal balance of all closed-end subordinate financing. (With a closed-end loan, a borrower draws down all funds on day one and may not make any payment plan changes or access any paid-down principal once the loan is closed.)

> **Note:** For each subordinate liability, in order for the lender to accurately calculate the CLTV ratio for eligibility and underwriting purposes, the lender must determine the drawn portion of all HELOCs, if applicable, and the unpaid principal balance for all closed-end subordinate financing. If any subordinate financing is not shown on a credit report, the lender must obtain documentation from the borrower or creditor.

If the borrower discloses, or the lender discovers, new (or increased) subordinate financing after the underwriting decision has been made, up to and concurrent with closing, the lender must re-underwrite the mortgage loan. (See B3-6-02, Debt-to-Income Ratios, for additional information.)

> **Note:** The CLTV ratio calculation may differ for certain mortgage loans. For details on these differences, see B2-1.3-05, Payoff of Installment Land Contract Requirements; B5-2-03, Manufactured Housing Underwriting Requirements; B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions; B5-3.2-03, HomeStyle Renovation Mortgages: Collateral Considerations; B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties; B5-5.1-02, Community Seconds Loan Eligibility; and B5-5.2-02, Loans with Resale Restrictions: Eligibility, Collateral and Delivery Requirements; and B5-5.3-03, Shared Equity Transactions: Eligibility, Underwriting and Collateral Requirements.

Refer to the Eligibility Matrix for allowable CLTV ratios.

Loan-Level Price Adjustments

An LLPA applies to certain mortgages with subordinate financing. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. See the Loan-Level Price Adjustment (LLPA) Matrix.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-09	December 04, 2018

B2-1.2-03, Home Equity Combined Loan-to-Value (HCLTV) Ratios (02/23/2016)

Introduction

This topic contains information on HCLTV ratios, including:

- Calculation of the HCLTV Ratio
- Permanently Modified HELOCs

Calculation of the HCLTV Ratio

For first mortgages that have subordinate financing under a HELOC, the lender must calculate the HCLTV ratio. This is determined by dividing the sum of the items listed below by the lesser of the sales price or appraised value of the property.

- the original loan amount of the first mortgage,
- the full amount of any HELOCs (whether or not funds have been drawn), and
- the unpaid principal balance (UPB) of all closed-end subordinate financing.

> **Note**: For each subordinate liability, in order for the lender to accurately calculate the HCLTV ratio for eligibility and underwriting purposes, the lender must determine the maximum credit line for all HELOCs, if applicable, and the unpaid principal balance for all closed-end subordinate financing. If any subordinate financing is not shown on a credit report, the lender must obtain documentation from the borrower or creditor.
> If the borrower discloses, or the lender discovers, new (or increased) subordinate financing after the underwriting decision has been made, up to and concurrent with closing, the lender must re-underwrite the mortgage loan. (See B3-6-02, Debt-to-Income Ratios, for additional information.)

Permanently Modified HELOCs

If the lender determines the HELOC has been permanently modified and the outstanding UPB is less than the permanently modified HELOC, the lender must use the modified HELOC amount in calculating the HCLTV ratio for eligibility purposes and for delivery. The lender must obtain appropriate documentation that the HELOC has been permanently modified and include this documentation in the loan file.

If the outstanding UPB is greater than the permanently modified HELOC, the lender must use the outstanding UPB to calculate the HCLTV ratio for eligibility purposes and for delivery. As noted above, the lender must obtain appropriate documentation and include that documentation in the loan file.

In no case may the CLTV ratio exceed the HCLTV ratio.

> **Note**: The HCLTV ratio calculation may differ for certain mortgage loans. For details on these differences, see B2-1.3-05, Payoff of Installment Land Contract Requirements; B5-2-03, Manufactured Housing Underwriting Requirements; B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions; B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties; B5-3.2-03, HomeStyle Renovation Mortgages: Collateral Considerations; and B5-5.1-02, Community Seconds Loan Eligibility.

> **Note**: Refer to the *Eligibility Matrix* for maximum allowable HCLTV ratios.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B2-1.2-04, Subordinate Financing (05/03/2023)

Introduction

This topic contains information on new and existing subordinate financing, including:

- Subordinate Financing Requirements
- Acceptable Subordinate Financing

- Unacceptable Subordinate Financing Terms
- Eligible Variable Payment Terms for Subordinate Financing
- Eligible Repayment Terms for Employer Subordinate Financing
- Resubordination Requirements for Refinance Transactions
- Defining Refinance Transactions Based on Subordinate Lien Payoff

Subordinate Financing Requirements

Fannie Mae purchases or securitizes first-lien loans where the secured property is subject to subordinate financing, except for co-op share loans that are subject to subordinate financing. (See B5-7-01, High LTV Refinance Loan and Borrower Eligibility for exceptions to this policy.) Subordinate liens must be

- evidenced by a promissory note;
- reflected in a recorded mortgage, deed of trust, or other security instrument; and
- clearly subordinate to Fannie Mae's first mortgage.

Lenders must disclose the existence of subordinate financing and the subordinate financing repayment terms to Fannie Mae, the appraiser, and the mortgage insurer.

> **Note:** Unless it qualifies as a Community Seconds loan, an agreement under which a borrower is obligated to pay a third-party (other than a co-owner of the subject property) a share in any appreciation in the value of the subject property is not permitted.

The lender must consider all subordinate liens secured by the subject property, regardless of the obligated party, when calculating CLTV and HCLTV ratios. This includes business loans, such as those provided by the Small Business Administration.

Except as described in *Acceptable Subordinate Financing* below or under Section B5-5.1, Community Seconds, no other type of recorded instrument documenting or securing the borrower's obligation to pay an amount in connection with funds advanced to the borrower in relation to the first mortgage is permitted, unless those funds have been advanced to the borrower by a co-owner of the subject property. Regardless of whether it qualifies as financing, eligible subordinated or unsecured PACE structures are permitted in accordance with B5-3.4-01, Property Assessed Clean Energy Loans.

For more information on subordinate financing originated in connection with the Section 502 Leveraged (Blended) Loan Program, see B6-1-05, Eligible RD-Guaranteed Mortgages.

Acceptable Subordinate Financing

The table below provides the requirements for acceptable subordinate financing, other than an eligible Community Seconds loan.

✓	**Acceptable Subordinate Financing**
	Variable payment mortgages that comply with the details below.

✓	Acceptable Subordinate Financing
	Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur.
	Mortgages with deferred payments in connection with employer subordinate financing (see below).
	Mortgage terms that require interest at a market rate.

If the interest rate for financing provided by the property seller is more than 2% below current standard rates for second mortgages, the subordinate financing must be considered a sales concession and the subordinate financing amount must be deducted from the sales price.

Unacceptable Subordinate Financing Terms

The table below describes examples of unacceptable subordinate financing terms on financing that does not qualify as an eligible Community Seconds mortgage.

✓	Unacceptable Subordinate Financing Terms
	Mortgages with negative amortization (with the exception of employer subordinate financing that has deferred payments).
	Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage (with the exception of employer subordinate financing that has deferred payments). **Note**: Fannie Mae will accept these subordinate financing terms when the amount of the subordinate debt is minimal relative to the borrower's financial assets and/or credit profile.

For additional information about applicable subordinate financing policies, see the following topics:

B5-5.1-02, Community Seconds Loan Eligibility,

B4-2.3-04, Loan Eligibility for Co-op Share Loans, and

B5-7-01, High LTV Refinance Loan and Borrower Eligibility.

Eligible Variable Payment Terms for Subordinate Financing

Fannie Mae permits variable payments for subordinate financing that does not qualify as an eligible Community

Seconds loan if the following provisions are met:

- With the exception of HELOCs, when the repayment terms provide for a variable interest rate, the monthly payment must remain constant for each 12-month period over the term of the subordinate mortgage. (For HELOCs, the monthly payment does not have to remain constant.)
- The monthly payments for all subordinate liens must cover at least the interest due so that negative amortization does not occur (with the exception of employer subordinate financing that has deferred payments).

Eligible Repayment Terms for Employer Subordinate Financing

If the subordinate financing is from the borrower's employer, it does not have to require regular payments of either principal and interest or interest only. Employer subordinate financing may be structured in any of the following ways:

- fully amortizing level monthly payments,
- deferred payments for some period before changing to fully amortizing level payments,
- deferred payments over the entire term, or
- forgiveness of the debt over time.

The financing terms may provide for the employer to require full repayment of the debt if the borrower's employment is terminated (either voluntarily or involuntarily) before the maturity date of the subordinate financing.

Refer to B3-4.3-08, Employer Assistance, for additional information.

Resubordination Requirements for Refinance Transactions

If subordinate financing is left in place in connection with a first mortgage refinance transaction, Fannie Mae requires execution and recordation of a resubordination agreement.

If state law permits subordinate financing to remain in the same subordinate lien position established with the prior first mortgage that is being refinanced, Fannie Mae does not require resubordination. The subordinate lien must satisfy any specified criteria of the applicable statutes.

> **Note**: Title insurance against the fact that a former subordinate lien is not properly resubordinated to the refinance loan does not release lenders from compliance with these resubordination requirements, or from Fannie Mae's requirement that the property is free and clear of all encumbrances and liens having priority over Fannie Mae's loan.

Defining Refinance Transactions Based on Subordinate Lien Payoff

The table below provides the underwriting considerations related to subordinate financing under refinance transactions.

Refinance transaction includes payoff of the first mortgage and …	Then lenders must underwrite the transaction as a …	Comments
the payoff of a purchase money second with no cash out,	Limited cash-out refinance	N/A
the payoff of a non-purchase money second, regardless of whether additional cash out is taken,	Cash-out refinance	N/A
the subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property, and the borrower is not taking cash out except to the extent permitted for a limited cash-out refinance transaction,	Limited cash-out refinance	The subordinate lien must be resubordinated to the new first mortgage.
the subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property, and the borrower is taking cash out,	Cash-out refinance	

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-04	May 03, 2023
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-09	December 04, 2018
Announcement SEL-2018-06	August 07, 2018

Section B2-1.3, Loan Purpose

B2-1.3-01, Purchase Transactions (12/16/2020)

Introduction

This topic contains information on purchase transaction eligibility requirements, including:

General Purchase Transaction Eligibility Requirements

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property or to finance the acquisition and rehabilitation of a property. The table below provides the general requirements for purchase money mortgage transactions. Certain mortgage loans and products may have different eligibility requirements for purchase mortgage transactions. If applicable, the differences will be stated in the specific mortgage loan or product topic section.

✓	**General Requirements**
	The minimum borrower contribution requirements for the selected mortgage loan type must be met.
	Proceeds from the transaction must be used to • finance the acquisition of the subject property, • finance the acquisition and rehabilitation of the subject property, • convert an interim construction loan or term note into permanent financing, or • pay off the outstanding balance on the installment land contract or contract for deed.

✓	General Requirements
	Proceeds from the transaction may not be used to give the borrower cash back other than the following: • an amount representing reimbursement for the borrower's overpayment of fees and charges, including refunds that may be required in accordance with certain federal laws or regulations. The settlement statement must clearly indicate the refund, and the loan file must include documentation to support the amount and reason for the refund; and • a legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears. **Note**: If the borrower receives cash back for a permissible purpose as listed above, the lender must confirm that the minimum borrower contribution requirements associated with the selected mortgage product, if any, have been met. Reimbursements or refunds permitted above may also be applied as a principal curtailment in accordance with B2-1.5-05, Principal Curtailments. A pro-rated real estate tax credit is not an interested party contribution, and it cannot be considered when determining if the borrower has sufficient assets for the transaction.

Requirements for Purchase Transactions with LTV, CLTV, or HCLTV Ratios of 95.01 – 97%

If the LTV, CLTV, or HCLTV ratio exceeds 95% for a purchase transaction, the following requirements apply.

Criteria	Requirements
LTV, CLTV, or HCLTV Ratio	95.01 to 97% **Note:** The CLTV ratio can be up to 105% if the subordinate lien is a Community Seconds loan.
Loan Type	Fixed-rate loans with terms up to 30 years. **Note**: High-balance and ARM loans are not permitted.
Property and Occupancy	One-unit principal residence. Manufactured housing is not permitted, unless the property meets the MH Advantage requirements. All borrowers must occupy the property unless there is a Community Seconds subordinate lien.

Criteria	Requirements
Borrower Eligibility	• At least one borrower must be a first-time homebuyer, as indicated on the Form 1003 in the Declarations section, when at least one borrower responds "No" to the question about having an ownership interest in a property in the last three years. • At least one borrower on the loan must have a credit score.
Homeownership Education	If all borrowers are first-time homebuyers, homeownership education is required. See B2-2-06, Homeownership Education and Housing Counseling for requirements.
Underwriting Method	DU only
Reserves	Reserves requirements will be determined by DU.
Other	All other standard **Selling Guide policies apply.**

> **Note:** The above requirements do not apply to HomeReady mortgage loans. See B5-6-01, HomeReady Mortgage Loan and Borrower Eligibility, for requirements for HomeReady mortgage loans with LTV, CLTV, or HCLTV ratios of 95.01 – 97%.

Non-Arm's Length Transactions

Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Fannie Mae allows non-arm's length transactions for the purchase of existing properties unless specifically forbidden for the particular scenario, such as delayed financing. For the purchase of newly constructed properties, if the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, developer, or seller of the property, Fannie Mae will only purchase mortgage loans secured by a principal residence. Fannie Mae will not purchase mortgage loans on newly constructed homes secured by a second home or investment property if the borrower has a relationship or business affiliation with the builder, developer, or seller of the property.

Purchase of Preforeclosure or Short Sale Properties — Allowable Fees, Assessments, and Payments

Borrowers may pay additional fees, assessments, or payments in connection with acquiring a property that is a preforeclosure or short sale that are typically the responsibility of the seller or another party. Examples of additional fees, assessments, or payments include, but are not limited to, the following:

- short sale processing fees (also referred to as short sale negotiation fees, buyer discount fees, short sale buyer fees);

  > **Note**: This fee does not represent a common and customary charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction.

- payment to a subordinate lienholder; and
- payment of delinquent taxes or delinquent HOA assessments.

The following requirements apply:

- The borrower (buyer) must be provided with written details of the additional fees, assessments, or payments and the additional necessary funds to complete the transaction must be documented.
- The servicer that is agreeing to the preforeclosure or short sale must be provided with written details of the fees, assessments, or payments and has the option of renegotiating the payoff amount to release its lien.
- All parties (buyer, seller, and servicer) must provide their written agreement of the final details of the transaction which must include the additional fees, assessments, or payments. This can be accomplished by using the Request for Approval of Short Sale or Alternative Request for the Approval of Short Sale forms published by the U.S. Treasury or any alternative form or addendum.
- The settlement statement must include all fees, assessments, and payments included in the transaction.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2019-08	October 02, 2019
Announcement SEL-2018-05	June 05, 2018

B2-1.3-02, Limited Cash-Out Refinance Transactions (07/05/2023)

Introduction

This topic contains information on limited cash-out refinance transactions, including:

Eligibility Requirements

Limited cash-out refinance transactions must meet the following requirements:

- The transaction is being used to obtain a new first mortgage secured by the same property to
  - pay off an existing first mortgage (including an existing HELOC in first-lien position);
  - pay off an existing construction loan and documented construction cost overruns that were incurred outside of the interim construction financing for two-closing construction-to-permanent loans. (These construction cost overruns must be paid directly to the builder at closing.); or
  - pay for construction costs to build the home for single-closing construction-to-permanent loans, which may include paying off an existing lot lien.
- At least one borrower on the new loan must be an owner (on title) of the subject property at the time of the initial application. Exceptions are allowed if the lender documents that
  - the borrower acquired the property through an inheritance or was legally awarded the property (such as through a divorce, separation, or dissolution of a domestic partnership); or
  - the property was previously owned by an *inter vivos* revocable trust and the borrower is the primary beneficiary of the trust.
- Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. Exceptions are allowed for paying off a Property Assessed Clean Energy (PACE) loan or other debt (secured or unsecured) that was used solely for energy-related improvements. See B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties, for additional information.
- If the subject property was previously listed for sale, it must have been taken off the market on or before the disbursement date of the new loan.

Additional Requirements for Limited Cash–Out Refinance Transactions with LTV, CLTV, or HCLTV Ratios of 95.01 – 97%

If the LTV, CLTV, or HCLTV ratio exceeds 95% for a limited cash-out transaction, the following requirements also apply.

Criteria	Requirements
Existing Loan	The lender must document that the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from • the lender's servicing system, • the current servicer (if the lender is not the servicer), • Fannie Mae's Loan Lookup tool, or • any other source as confirmed by the lender. The lender must inform DU that Fannie Mae owns the existing mortgage using the Owner of Existing Mortgage field in the online loan application before submitting the loan to DU. **Note**: This requirement does not apply if the CLTV exceeds 95% only due to a Community Seconds loan.
LTV, CLTV, or HCLTV Ratio	95.01 to 97% **Note**: The CLTV ratio can be up to 105% if the subordinate lien is a Community Seconds loan.
Loan Type	Fixed-rate loans with terms up to 30 years. **Note**: High-balance and ARM loans are not permitted.
Property and Occupancy	One-unit principal residence. All borrowers must occupy the property. Manufactured housing is not permitted, unless the property meets the MH Advantage requirements.
Credit Score Requirements	At least one borrower on the loan must have a credit score.
Underwriting Method	DU only

Criteria	Requirements
Other	All other standard limited cash-out refinance policies apply.

> **Note:** The above requirements do not apply to HomeReady or high LTV refinance loans. For additional information, see B5-6-01, HomeReady Mortgage Loan and Borrower Eligibility or B5-7-01, High LTV Refinance Loan and Borrower Eligibility accordingly.

Ineligible Transactions

When the following conditions exist, the transaction is ineligible as a limited cash-out refinance and must be treated as a cash-out refinance:

- no outstanding first lien on the subject property (except for single-closing construction-to-permanent transactions, which are eligible as a limited cash-out out refinance even though there is not an outstanding lien on the subject property);
- the proceeds are used to pay off a subordinate lien that was not used to purchase the property (other than the exceptions for paying off PACE loans and other debt used for energy-related improvements, described above);
- the borrower finances the payment of real estate taxes that are more than 60 days delinquent for the subject property in the loan amount; and
- a short-term refinance mortgage loan that combines a first mortgage and a non-purchase-money subordinate mortgage into a new first mortgage or any refinance of that loan within six months.

See also B2-1.3-04, Prohibited Refinancing Practices.

Acceptable Uses

The following are acceptable in conjunction with a limited cash-out refinance transaction:

- modifying the interest rate and/or term for existing mortgages;
- paying off the existing first mortgage (which may include additional amounts required to pay off the loan, such as prepayment penalties, a deferred balance resulting from completion of a prior loss mitigation solution, and late fees);
- paying for construction costs to build a home for a single-closing construction-to-permanent transaction, which may include paying off an existing lot lien;
- paying off the construction loan and documented construction cost overruns for a two-closing construction-to-permanent loan;
- financing the payment of closing costs, points, and prepaid items. With the exception of real estate taxes that are more than 60 days delinquent the borrower can include real estate taxes in the new loan amount provided

    - the real estate taxes must be paid in full through the transaction, and
    - payment for the taxes must be disbursed to the taxing authority through the closing transaction, with no funds used for the taxes disbursed to the borrower;
- receiving cash back in an amount that is not more than the lesser of 2% of the new refinance loan amount or $2,000;
- buying out a co-owner pursuant to an agreement;
- paying off a subordinate mortgage lien (including prepayment penalties) used to purchase the subject property. (When the subordinate loan is a Community Seconds, payoff may include any required payment of the share of appreciation due to the Community Seconds provider under the terms of the shared appreciation agreement.)The lender must document that the entire amount of the subordinate financing was used to acquire the property; or
- paying off the unpaid principal balance of PACE loans and other debt used for energy-related improvements, described above.

Cash Back to the Borrower

As noted above, the borrower may receive a small amount of cash back in a limited cash-out refinance transaction. The lender may also refund the borrower for the overpayment of fees and charges due to federal or state laws or regulations. Refunds such as these are not included in the maximum cash back limitation, provided that

- the settlement statement clearly identifies the refund, and
- the loan file includes documentation to support the amount and reason for the refund.

This applies to standard limited cash-out refinance transactions. For high LTV refinance transactions, see B5-7-01, High LTV Refinance Loan and Borrower Eligibility.

> **Note**: These refunds may also be applied as a principal balance curtailment in accordance with B2-1.5-05, Principal Curtailments.

Documentation Requirements

To treat a transaction as a limited cash-out refinance transaction, the lender must document that all proceeds of the existing subordinate lien were used to fund part of the subject property purchase price or pay for permissible energy-related expenses. Written confirmation must be maintained in the mortgage file.

The following are acceptable forms of documentation:

- a copy of the settlement statement for the purchase of the property;
- a copy of the title policy from the purchase transaction that identifies the subordinate financing;
- other documentation from the purchase transaction that indicates that a subordinate lien was used to purchase the subject property; or
- for energy-related expenses, copies of invoices or receipts to evidence funds were used for energy

improvements. A copy of an energy report is required in many cases. See B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties, for additional information.

Existing Subordinate Liens That Will Not Be Paid Off

When a new limited cash-out refinance transaction will not satisfy existing subordinate liens, the existing liens must be clearly subordinate to the new refinance mortgage. The refinance mortgage must meet Fannie Mae’s eligibility criteria for mortgages that are subject to subordinate financing.

New Subordinate Financing

When a borrower obtains new subordinate financing with the refinancing of a first mortgage loan, Fannie Mae treats the transaction as a limited cash-out refinance provided the first mortgage loan meets the eligibility criteria for a limited cash-out refinance transaction.

> **Note**: It is acceptable for borrowers to obtain cash from the proceeds of the new subordinate mortgage.

Refinances to Buy Out An Owner’s Interest

A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the secured property was jointly owned for at least 12 months preceding the disbursement date of the new mortgage loan.

All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.

Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing. The party buying out the other party’s interest must be able to qualify for the mortgage pursuant to Fannie Mae’s underwriting guidelines.

Exceptions to Limited Cash-Out Refinance Requirements for High Loan-to-Value Refinance Loans

See *Chapter B5-7: High Loan-to-Value Refinance Option*, for modifications to the standard limited cash-out refinance requirements for high LTV loan transactions.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-06	July 05, 2023
Announcement SEL-2023-05	June 07, 2023
Announcement SEL-2022-05	June 01, 2022
Announcement SEL-2020-03	June 03, 2020
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-06	August 07, 2018
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2018-02	February 27, 2018

B2-1.3-03, Cash-Out Refinance Transactions (02/01/2023)

Introduction

This topic contains information on cash-out refinance transactions, including:

- Eligibility Requirements
- Ownership of the Property
- Ineligible Transactions
- Acceptable Uses
- Delayed Financing Exception
- Student Loan Cash-Out Refinances
- Loan-Level Price Adjustments

Eligibility Requirements

The following requirements apply to cash-out refinance transactions:

- The transaction must be used to pay off existing mortgage loans by obtaining a new first mortgage secured by the same property, or be a new mortgage on a property that does not have a mortgage lien against it (the borrower owns the property free and clear at the time of refinance).
- If an existing first mortgage is being paid off through the transaction, it must be at least 12 months old at the time of refinance, as measured by the note date of the existing loan to the note date of the new loan. This requirement does not apply
  - to any existing subordinate liens being paid off through the transaction, or
  - when buying out a co-owner pursuant to a legal agreement.
- At least one borrower must have been on title for at least for six months prior to the disbursement date of the new loan. See *Ownership of the Property* below for exceptions.
- For DU loan casefiles, if the DTI ratio exceeds 45%, six months reserves is required.
- Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan.
- For the maximum allowable LTV, CLTV, and HCLTV ratios and credit score requirements for manually underwritten cash-out refinance loans, see the *Eligibility Matrix*.

Ownership of the Property

At least one borrower must have been on title to the subject property for at least six months prior to the disbursement date of the new loan, unless one of the following exceptions apply:

- There is no waiting period if the lender documents that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
- The delayed financing requirements are met. See *Delayed Financing Exception* below.
- If the property was owned prior to closing by a limited liability corporation (LLC) that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower’s six-month ownership requirement. (In order to close the refinance transaction, ownership must be transferred out of the LLC and into the name of the individual borrower(s). See B2-2-01, General Borrower Eligibility Requirements for additional details.)
- If the property was owned prior to closing by an *inter vivos* revocable trust, the time held by the trust may be counted towards meeting the borrower’s six-month ownership requirement if the borrower is the primary beneficiary of the trust.

The above ownership policy applies in addition to the requirement that an existing first mortgage being paid off through the refinance is at least 12 months old.

Ineligible Transactions

The following transaction types are not eligible as cash-out refinances:

- The mortgage loan is subject to a temporary interest rate buydown.

- For certain transactions on properties that have a Property Assessed Clean Energy (PACE) loan, borrowers who refinance the first mortgage loan and have sufficient equity to pay off the PACE loan but choose not to do so will be ineligible for a cash-out refinance. See B5-3.4-01, Property Assessed Clean Energy Loans for additional information.
- Transactions classified as HomeStyle Energy loans. However, energy-related improvements are permitted.
- Transactions in which a portion of the proceeds of the refinance is used to pay off the outstanding balance on an installment land contract, regardless of the date the installment land contract was executed.
- The new loan amount includes the financing of real estate taxes that are more than 60 days delinquent and an escrow account is not established, unless requiring an escrow account is not permitted by applicable law or regulation. For example, if a particular state law does not allow a lender to require an escrow account under certain circumstances, the loan would be eligible for sale to Fannie Mae without an escrow account.

See also B2-1.3-04, Prohibited Refinancing Practices.

Acceptable Uses

The following are acceptable uses for cash-out refinance transactions:

- paying off the UPB of the existing first mortgage (provided the existing first mortgage is at least 12 months old);
- financing the payment of closing costs, points, and prepaid items. The borrower can include real estate taxes in the new loan amount. Delinquent real estate taxes (taxes past due by more than 60 days) can also be included in the new loan amount, but if they are, an escrow account must be established, subject to applicable law or regulation;
- paying off any outstanding subordinate mortgage liens of any age;
- taking equity out of the subject property that may be used for any purpose;
- financing a short-term refinance mortgage loan that combines a first mortgage and a non-purchase-money subordinate mortgage into a new first mortgage.

Delayed Financing Exception

Borrowers who purchased the subject property within the past six months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) are eligible for a cash-out refinance if all of the following requirements are met.

✓	**Requirements for a Delayed Financing Exception**
	The original purchase transaction was an arms-length transaction.

✓	Requirements for a Delayed Financing Exception
	For this refinance transaction, the borrower(s) must meet Fannie Mae's borrower eligibility requirements as described in B2-2-01, General Borrower Eligibility Requirements. The borrower(s) may have initially purchased the property as one of the following: • a natural person; • an eligible *inter vivos* revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust; • an eligible land trust when the borrower is the beneficiary of the land trust; or • an LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%.
	The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale.) The preliminary title search or report must confirm that there are no existing liens on the subject property.
	The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
	If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. **Note**: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
	The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV, CLTV, and HCLTV ratios for the cash-out transaction based on the current appraised value).
	All other cash-out refinance eligibility requirements are met. Cash-out pricing is applicable.

Student Loan Cash-Out Refinances

The student loan cash-out refinance feature allows for the payoff of student loan debt through the refinance transaction with a waiver of the cash-out refinance LLPA if all of the following requirements are met:

✓	**Requirements for Student Loan Cash-out Refinances**
	The loan must be underwritten in DU. DU cannot specifically identify these transactions, but will issue a message when it appears that only subject property liens and student loans are marked paid by closing. The message will remind lenders about certain requirements below; however, the lender must confirm the loan meets all of the requirements outside of DU.
	The standard cash-out refinance LTV, CLTV, and HCLTV ratios apply per the *Eligibility Matrix*.
	At least one student loan must be paid off with proceeds from the subject transaction with the following criteria: • proceeds must be paid directly to the student loan servicer at closing; • at least one borrower must be obligated on the student loan(s) being paid off, and • the student loan must be paid in full - partial payments are not permitted.
	The transaction may also be used to pay off one of the following: • an existing first mortgage loan (including an existing HELOC in first-lien position); or • a single-closing construction-to-permanent loan to pay for construction costs to build the home, which may include paying off an existing lot lien.
	Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. Exceptions are allowed for paying off a PACE loan or other debt (secured or unsecured) that was used solely for energy improvements (see B5-3.4-01, Property Assessed Clean Energy Loans and B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties for additional information).
	The transaction may be used to finance the payment of closing costs, points, and prepaid items. With the exception of real estate taxes that are more than 60 days delinquent, the borrower can include real estate taxes in the new loan amount as long as an escrow account is established, subject to applicable law or regulation.
	The borrower may receive cash back in an amount that is not more than the lesser of 2% of the new refinance loan amount or $2,000. The lender may also refund the borrower for the overpayment of fees and charges due to federal or state laws or regulations, or apply a principal curtailment (see B2-1.3-02, Limited Cash-Out Refinance Transactions for additional information).
	Unless otherwise stated, all other standard cash-out refinance requirements apply.

Delivery Requirements

Loans qualified as student loan cash-out refinances must be delivered to Fannie Mae with Special Feature Code (SFC) 003 and SFC 841.

Loan-Level Price Adjustments

An LLPA applies to certain cash-out refinance transactions based on the LTV ratio and credit score. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. See the *Loan-Level Price Adjustment (LLPA) Matrix*.

As noted above, the LLPA is waived for loans that meet the student loan cash-out refinance requirements.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-01	February 01, 2023
Announcement SEL-2020-06	October 07, 2020
Announcement SEL-2019-06	July 03, 2019
Announcement SEL-2018-09	December 04, 2018

B2-1.3-04, Prohibited Refinancing Practices (08/04/2021)

Introduction

This topic contains information on prohibited refinancing practices, including:

- Lender Solicitation for Refinancing
- Prearranged Refinancing Agreements
- Agreements to Advance Borrower Payments
- Conditional Tenders of Payment

Lender Solicitation for Refinancing

Sellers/servicers may not:

- specifically target Fannie Mae borrowers for offers to refinance;
- treat loans they hold in their own portfolios and those sold to another investor or Fannie Mae as separate classes of loans for purposes of promoting refinancing.

Sellers/servicers may not, as a means of making a loan eligible for repurchase from an MBS pool (for future refinancing), encourage a borrower to refrain from making loan payments.

Prearranged Refinancing Agreements

Sellers/servicers may not deliver a loan to Fannie Mae that is in the process of being refinanced. Fannie Mae considers the delivery of a seasoned loan that is in the process of being refinanced as a form of targeting, and is therefore unacceptable, even if no agreement for future refinancing was entered into at the time of origination. The seller/servicer must have in place procedures to ensure that it does not deliver to Fannie Mae any loan that it is in the process of refinancing or acquiring from, or funding for, a third-party originator.

Similarly, a seller/servicer may not deliver a loan to Fannie Mae if the seller/servicer (or any affiliate or third-party originator) and the borrower have entered into an arrangement:

- for special terms (such as reduced fees) for a future refinance of the loan - unless the seller/servicer obtains a negotiated contract from Fannie Mae that allows delivery of the loan in spite of its shortened prepayment expectation. If the seller/servicer believes that there might be such a refinance agreement, the seller/servicer should contact its Fannie Mae customer account team to determine whether the loan is eligible for delivery.
- to complete a refinance transaction that circumvents Fannie Mae's cash-out refinance policies and pricing. A transaction is not eligible as a limited cash-out refinance if the borrower completed a cash-out refinance transaction with a note date 30 days or less prior to the application date of a new refinance secured by the same property.

Agreements to Advance Borrower Payments

Refinancing arrangements that call for the seller/servicer to advance a number of payments on the borrower’s behalf and then to refinance the mortgage once the agreed-upon payments have been advanced are not permitted.

Fannie Mae also restricts refinancing practices that affect prepayment patterns. Fannie Mae analyzes MBS pools that have high levels of prepayments. If such analysis raises concerns about a seller/servicer’s practices, Fannie Mae may review the seller/servicer’s origination and refinancing activities to ensure compliance with our requirements. With respect to any mortgage loan that pays off within 120 days from the whole loan purchase date or the MBS issue date, Fannie Mae in its sole discretion may require reimbursements by the seller/servicer for any premium paid or buyup proceeds paid in connection with the purchase of the mortgage loan. (For mortgage loans repurchased by a seller/servicer, Fannie Mae may require reimbursement in its sole discretion, without regard to the 120-day limitation.) See C1-1-01, Execution Options and C3-3-02, Accessing Buyup and

Buydown Ratios and Calculating Payments or Charges for specific requirements.

Conditional Tenders of Payment

Conditional tenders of payment are not an acceptable alternative to refinancing for Fannie Mae loans, regardless of whether they relate to a loan being serviced for Fannie Mae or to a loan that is being delivered to it. Fannie Mae does not consider a refinancing to have occurred unless the mortgage debt is satisfied and the lien against the property is released. The only exceptions to this are

- negotiated transactions involving seasoned loans held in a seller/servicer's portfolio that have been modified since they were originated; and
- transactions involving loans secured by properties in New York that are originated under the statutory provisions that permit refinanced loan to be documented by a consolidation, extension, and modification agreement.

If the transaction that permits the refinance to be documented by a consolidation, extension and modification agreement is related to an eMortgage, the seller/servicer must follow the applicable procedures in the *Servicing Guide*.

The seller/servicer must not

- use conditional tenders of payment as a refinancing alternative, or
- honor requests it receives for conditional tenders of payment for any loan that it services for Fannie Mae.

The seller/servicer that offers conditional tenders of payment as a refinancing alternative must not deliver any refinanced loan to Fannie Mae unless it is documented by a new note and a new loan, unless it is one of the previously mentioned authorized exceptions.

If Fannie Mae's post-purchase underwriting performance review of a refinanced loan reveals that the conditional tender of payment procedure was used as an alternative to refinancing the loan, Fannie Mae will require the seller/servicer to repurchase the loan in question and, if multiple occurrences of this practice are identified, Fannie Mae may take other appropriate action against the seller/servicer.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-07	August 04, 2021
Announcement SEL-2020-05	September 02, 2020

Announcements	Issue Date
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-02	February 27, 2018

B2-1.3-05, Payoff of Installment Land Contract Requirements (11/13/2012)

Introduction

This topic contains requirements for the payoff of installment land contracts.

- Payoff of Installment Land Contract Requirements

Payoff of Installment Land Contract Requirements

When the proceeds of a mortgage loan are used to pay off the outstanding balance on an installment land contract (also known as contract or bond for deed) that was executed within the 12 months preceding the date of the loan application, Fannie Mae will consider the mortgage loan to be a purchase money mortgage loan.

The LTV ratio for the mortgage loan must be determined by dividing the new loan amount by the lesser of the total acquisition cost (defined as the purchase price indicated in the land contract, plus any costs the purchaser incurs for rehabilitation, renovation, or energy conservation improvements) or the appraised value of the property at the time the new mortgage loan is closed. The expenditures included in the total acquisition cost must be fully documented by the borrower.

When the installment land contract was executed more than 12 months before the date of the loan application, Fannie Mae will consider the mortgage loan to be a limited cash-out refinance. In this case, the LTV ratio for the mortgage loan must be determined by dividing the new loan amount by the appraised value of the property at the time the new mortgage loan is closed.

Cash-out refinance transactions involving installment land contracts are not eligible for delivery.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Section B2-1.4, Loan Amortization Types

B2-1.4-01, Fixed-Rate Loans (12/14/2022)

Introduction

This topic contains general information on fixed-rate loans.

- Fixed-Rate Loan Eligibility

Fixed-Rate Loan Eligibility

Fannie Mae purchases or securitizes conventional, fully amortizing, fixed-rate first mortgage loans. Conventional fixed-rate loans are not assumable as of the note date. When selling such loans to Fannie Mae, the Assumption Indicator in the Loan Delivery application must be "False" (which means not assumable).

The payments must be structured as follows:

- level monthly installments of principal and interest (P&I),
- due on the first day of each month, and
- payment of interest in arrears.

The loan can be subject to a temporary interest rate buydown plan, provided that the subject property is secured by a principal residence or a second home. See B2-1.4-04, Temporary Interest Rate Buydowns for additional information.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022

Announcements	Issue Date
Announcement SEL-2019-01	February 06, 2019

B2-1.4-02, Adjustable-Rate Mortgages (ARMs) (12/14/2022)

Introduction

This topic contains information on ARMs, including:

Overview

Fannie Mae purchases or securitizes fully amortizing ARMs that are originated under its standard or negotiated plans. For maximum LTV/CLTV/HCLTV ratios and credit score requirements for ARMs, see the *Eligibility Matrix*.

Acceptable ARM Characteristics

The following table describes standard conventional Fannie Mae ARM requirements.

✓	Standard Conventional ARM Requirements
	Fannie Mae does not set a minimum remaining term requirement at the time of loan purchase.
	The initial adjustment period in months must align with the initial fixed-rate period in years. For example, a "3-year ARM" must have an initial fixed period of 36 months, and a "5-year ARM" must be 60 months.
	Each ARM plan must offer lifetime and per-adjustment interest rate change limitations. • Lifetime interest rate change limitations apply to interest rate increases only. • Per-adjustment interest rate change limitations apply to interest rate increases and decreases.
	Mortgage interest rates may never decrease to less than the ARM’s margin, regardless of any downward interest rate cap.
	Fannie Mae restricts purchase or securitization of seasoned ARMs to those that are delivered as negotiated transactions.

ARMs and Temporary Interest Rate Buydowns

The following table provides parameters pertaining to ARMs subject to temporary interest rate buydowns.

✓	ARMs Subject to Interest Rate Buydowns
	Must be secured by a principal residence or second home.
	Are only permitted with an ARM plan that has an initial interest rate period of three years or more.
	ARM plans that have an initial interest rate period of three years (Plan 4926) must be secured by a one- or two-unit property and must be structured as a 2-1 buydown with a buydown period no greater than 24 months.

✓	ARMs Subject to Interest Rate Buydowns
	ARM plans with an initial interest rate period greater than three years (Plans 4927, 4928, and 4929) can be structured as either 3-2-1 or 2-1 buydowns (or other allowable structures per B2-1.4-04, Temporary Interest Rate Buydowns).

ARM Plan Indexes

A Fannie Mae ARM plan must be tied to the Secured Overnight Financing Rate (SOFR) Index. SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U. S. Treasury securities in the repurchase agreement (repo) market. Fannie Mae uses a 30-day average of the SOFR index as published by the Federal Reserve Bank of New York.

Standard Conventional ARM Plans

To qualify as a Fannie Mae standard conventional ARM, the ARM must have *all* of the characteristics specified in the *Standard ARM Plan Matrix* for the specific ARM plan.

The *Standard ARM Plan Matrix* is available on Fannie Mae's website and is incorporated by reference into this *Guide*.

Initial Note Rate Limitations

Fannie Mae limits the initial note rate for ARMs with initial interest rate periods of less than five years.

The limitation requires comparison of the initial note rate to the fully indexed rate that is applicable at the time the loan is originated.

Calculating the Fully Indexed Rate

The fully indexed rate is the sum of the value of the applicable index and the mortgage margin, which is then rounded to the nearest one-eighth percent.

> **Note**: Unless specific product terms provide otherwise, if the index plus gross margin equals a number that is equidistant between the higher and lower one-eighth percent, Fannie Mae rounds down to the nearest one-eighth percent.

The applicable index value that determines the fully indexed rate is any index value in effect during the 90 days that precede the note date.

Determining ARM Acceptability

Lenders must determine whether an ARM loan is acceptable for purchase by Fannie Mae by subtracting the initial note rate of the loan from the fully indexed rate in effect when the loan was originated. The difference must not exceed 3%.

Mortgage Margin

The mortgage margin is the “spread” that is added to the index value to develop the interest accrual rate for the mortgage. The maximum mortgage margin may be no more than 300 basis points.

When lenders offer a deeply discounted “teaser” rate for the mortgage, the margin is generally not used in determining the initial interest rate, but will be used to determine the interest rate for all future interest rate changes.

Interest Accrual Rate Calculation

ARM instruments provide for each new interest accrual rate to be calculated by adding the mortgage margin to the most recent index figure available 45 days before the interest change date. Fannie Mae uniform instruments for all standard ARM plans provide for rounding to the nearest one-eighth.

> **Note**: If a mortgage instrument provides otherwise, lenders must check with their Fannie Mae customer account team as there may be pooling and/or disclosure impact.

Interest rate calculations are subject to the applicable per-adjustment and lifetime interest rate change limitations.

ARMs and MBS Pools

MBS pools cannot contain ARMs with provisions that allow or require the lender or servicer to change the minimum or maximum interest rate or the mortgage margin following an assumption, unless those provisions are waived prior to pooling such mortgage loans. Since this is not a feature contained in standard Fannie Mae ARM instruments, the lender must check with its Fannie Mae customer account team to determine acceptability of the nonstandard form.

If such a unilateral waiver is legally precluded because the note provision would be beneficial to the borrower and therefore requires borrower consent to waive, Fannie Mae will require evidence of a prior, duly written and executed bilateral waiver between the lender and the related borrower before allowing the loan to be pooled.

For more information on pooling ARMs, see Chapter C3-5, Pooling Loans into ARM MBS.

Pooling Standard Fannie Mae ARM Plans Without Special Disclosure

To be pooled as a standard Fannie Mae ARM plan without a special disclosure, the ARM must meet all of the standard plan characteristics and must

- have a monthly payment that is due on the first day of the month;
- have an original maturity no longer than 30 years; and

- be originated on the applicable Fannie Mae standard forms, with no modifications, which cover all other pooling requirements.

See the *Standard ARM Plan Matrix* for additional information.

ARM Disclosures

Lenders must provide borrowers with disclosures in compliance with all applicable laws.

Disclosures Regarding Availability of Index Values

In addition to any disclosures required by applicable law, lenders must inform borrowers that the movement in the index on which the mortgage interest rate is based can be monitored and where the value for the index can be obtained. A number of periodicals publish current index values. Lenders may refer borrowers to any of the periodicals.

Lenders should advise borrowers that an alternative published index will be selected (consistent with the provisions of the mortgage note) should the original index for a specific ARM plan no longer be available or published. This is commonly referred to as the "fallback" language in the note.

Fannie Mae relies on the following "official" source for the index used for Fannie Mae ARM plans:

- A 30-day average of the SOFR index as published daily by the Federal Reserve Bank of New York.

Disclosures Regarding Below-Market Interest Rates

Lenders must notify borrowers of current index values and mortgage margins if the borrower's initial interest rate is below-market.

Unless the lender is already required by regulation to make a comparable disclosure, the lender must show by example what the interest rate would be if the loan had been adjusted at the time of origination.

Lenders must ensure that borrowers are aware of, and prepared for, the possibility of both an interest rate increase and a payment increase on the first interest rate adjustment date.

Disclosures Regarding Conversions

Disclosures regarding conversions must include the following:

✓	Requirement: Conversion Disclosures Must Include
	The instances when the conversion option may be exercised.

✓	Requirement: Conversion Disclosures Must Include
	The time frame within which conversion requests must be received.
	The time frame within which the borrower must return executed conversion documents.
	Any fees that will be charged for processing the conversion. **Note**: Fannie Mae allows a $250 fee for ARM plans that have a monthly conversion option and a $100 fee for other ARM plans.
	Once the ARM plan converts to a fixed-rate loan, the mortgage is no longer assumable.
	Any other special conditions.

Disclosures Regarding Assumption of ARMs

Although Fannie Mae ARMs are usually assumable, some plans do restrict assumability.

When assumptions are restricted, the lender must advise the borrower of the exact nature of the restriction(s).

> **Note**: Lenders must disclose to borrowers that any ARM plan that includes an option to convert to a fixed-rate mortgage cannot be assumed once the conversion option is exercised.

See the *Standard ARM Plan Matrix* for information about the assumability provisions of Fannie Mae's various ARM plans.

Requirements Regarding Interest Rate and Monthly Payment Adjustments

The following requirements apply to interest rate and monthly payment adjustments for ARM loans:

- The loan being delivered must not be subject to any current litigation with respect to the manner in which the interest rate and/or payment adjustments were calculated or implemented.
- The lender must not be servicing other ARMs that include interest rate and payment adjustment provisions similar to those of the mortgage being sold to Fannie Mae that are the subject of current litigation related to the manner in which adjustments were made.

ARM Payment Shock

ARMs that provide for low initial payments based on fixed introductory rates that expire after a short period of time and then adjust to a variable rate for the remaining term of the mortgage loan have the potential for payment shock. "Payment shock" refers to the impact on the borrower's ability to continue making the mortgage payments once the introductory rate expires. After the rate and payment increase, the borrower is subsequently faced with a large increase in monthly PITIA.

Lenders must limit the impact of any potential payment shock on an ARM with an initial fixed-rate period of five years or less by qualifying borrowers based on the qualifying rate described in B3-6-04, Qualifying Payment Requirements.

DU Generic ARM Plans

Generic ARM plans are provided for loan casefiles underwritten through DU. These generic ARM plans are available:

- as tools for underwriting with DU, and
- to assist lenders in underwriting negotiated ARMs and standard ARM plans that are not specifically identified in the ARM plan field in the DO/DU user interface (such as all SOFR ARM plans).

The following generic ARM plans are listed in the DO/DU user interface:

- FM GENERIC, 1 YR, 1% ANNUAL Cap
- FM GENERIC, 1 YR, 2% ANNUAL Cap
- FM GENERIC, 3 YR
- FM-GENERIC, 5 YR
- FM-GENERIC, 7 YR
- FM-GENERIC, 10 YR

> **Note**: The term in these generic plans refers to the initial fixed-rate period. Generic plan names, such as FM GENERIC, 10 YR, are only used to submit loan casefiles to DU. Lenders must identify the applicable Fannie Mae ARM plan number in closing documents and at delivery of the loan to Fannie Mae.

Generic ARM Underwriting Guidelines

DU applies standard Fannie Mae ARM underwriting and eligibility guidelines to the generic ARM plan equivalent based on the initial interest rate adjustment period.

✓	For generic ARM plans, DU will …
	apply standard ARM eligibility guidelines.
	qualify borrowers based on ARM qualifying guidelines in B3-6-04, Qualifying Payment Requirements.

✓	**For generic ARM plans, DU will …**
	allow temporary buydowns based on standard ARM guidelines.
	allow generic ARM plans equivalent to standard ARM plans on special mortgage products.
	return a message stating that the lender must ensure that the loan is eligible for purchase.

Loan-Level Price Adjustments

An LLPA applies to certain ARM loans. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. See the *Loan-Level Price Adjustment (LLPA) Matrix.*

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	**Issue Date**
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2022-09	October 05, 2022
Announcement SEL-2022-05	June 01, 2022
Announcement SEL-2021-09	October 06, 2021
Announcement SEL-2021-08	September 01, 2021
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2020-02	April 01, 2020
Announcement SEL-2019-08	October 02, 2019
Announcement SEL-2019-05	June 05, 2019

Announcements	Issue Date
Announcement SEL-2019-01	February 06, 2019

B2-1.4-03, Convertible ARMs (02/23/2016)

Introduction

This topic contains information on convertible ARMs, including:

General Information

Fannie Mae accepts delivery of fixed-rate mortgages that were converted from ARMs either by a legally executed modification agreement or under the provisions of the mortgage instrument.

Although the ARM does not have to have been originated on Fannie Mae uniform instruments or in accordance with Fannie Mae eligibility requirements for ARMs, the new fixed-rate mortgage that results from the conversion must meet Fannie Mae’s general eligibility and underwriting requirements for newly originated fixed-rate mortgages.

Converted ARMs Removed from ARM MBS Pools

This topic describes the circumstances under which a converted ARM that is removed from an ARM MBS pool as the result of its conversion to a fixed-rate mortgages may be redelivered to Fannie Mae.

If the mortgage is more than 12 months old at the time of the redelivery, and the lender specified a “market rate” post-conversion disposition option when the MBS pool was delivered to Fannie Mae, the mortgage must meet the same eligibility criteria as other converted ARMs (as discussed in “Eligibility Requirements for Converted ARMs” later in this topic).

If the lender specified a take-out post-conversion disposition option when the MBS pool was delivered to Fannie Mae, the lender does not need to requalify the borrower or verify that the mortgage satisfies Fannie Mae eligibility criteria.

Borrower Requalification Considerations for Fixed-Rate Mortgages Converted from ARMs and Redelivered Under “Market Rate” Post-Conversion Options

To qualify a borrower, lenders may use the original in-file documentation to evaluate the borrower’s financial ability, as long as the borrower is able to qualify for the mortgage based on either of the following:

- The mortgage interest rate in effect following the conversion and Fannie Mae’s current underwriting guidelines for a conventional fixed-rate mortgage, or
- The mortgage interest rate in effect for the ARM when it was originated and the underwriting guidelines Fannie Mae used for ARMs at that time.

If the lender is unable to qualify a borrower under the previous options, the lender must requalify the borrower under Fannie Mae’s standard guidelines, including

- obtaining a new loan application,
- obtaining up-to-date credit reports,
- obtaining new employment and income verifications using the acceptable documentation,
- evaluating the borrower’s financial ability based on
  - the mortgage interest rate in effect for the converted mortgage, and
  - Fannie Mae’s current underwriting guidelines for a conventional fixed-rate mortgage.

Eligibility Requirements for Converted ARMs

The following specific eligibility requirements apply to converted ARMs that are delivered as either whole loans or MBS pool deliveries under the “market rate” post-conversion disposition option that were removed from an ARM MBS pool as the result of the conversion:

✓	**Requirements**
	The ARM must have been at least 12 months old when the conversion occurred.
	The converted mortgage must meet all of the eligibility criteria specified for mortgages that are more than one year old, unless Fannie Mae has specified that those criteria do not apply. **Note**: The age of the mortgage is calculated from the date the ARM was originated. These specific eligibility criteria appear in B2-1.5-02, Loan Eligibility.

✓	Requirements
	The mortgage loan must be current at the time of delivery. **Note**: To minimize processing delays, Fannie Mae considers a mortgage current if no more than 45 days have elapsed since the last paid installment date.
	The total of all interest rate increases or payment adjustments (including any combination of scheduled ARM interest rate changes and the increases scheduled under an interest rate buydown plan) that occurred after the ARM was originated must not have exceeded 2% (for the interest rate adjustment) or 15% (for the payment adjustment) if the lender qualifies the borrower on the basis of the mortgage interest rate that was in effect for the ARM when it was originated and the ARM underwriting guidelines Fannie Mae used at that time.
	The modified mortgage must provide for a fixed-interest rate, level monthly payments, and amortization within the term of the original mortgage.
	The title insurance policy or any endorsements to it are not impaired because of the option to convert to a fixed-rate mortgage or the actual conversion.
	If the original title policy did not include the ARM endorsements currently required, the lender must indemnify Fannie Mae (as described in A2-1-03, Indemnification for Losses) against Fannie Mae losses that arise out of future title disputes related to the years in which the mortgage was an ARM.
	The original loan amount of the ARM did not exceed Fannie Mae's current maximum mortgage amount limitation at the time Fannie Mae originally securitized the mortgage in an ARM MBS pool.

✓	Requirements
	The greater of the original mortgage amount (at origination of the ARM, pre-conversion) or the current unpaid principal balance must be used to determine that the modified mortgage meets Fannie Mae requirements for maximum mortgage amount, LTV ratios, mortgage insurance coverage, and title insurance. *EXCEPTION: For the delivery of a converted ARM that Fannie Mae initially securitized in an ARM MBS pool,* if Fannie Mae's loan limits decreased between the time Fannie Mae initially securitized the ARM and the time the converted mortgage is redelivered to Fannie Mae after it is removed from the pool, the mortgage will still be acceptable to Fannie Mae even if the original mortgage balance exceeds the maximum mortgage amount that is in effect at the time of the redelivery. BACKGROUND This recognizes and acknowledges, respectively, the fact that • the loan satisfied Fannie Mae requirements when it was securitized, and • the redelivery is a function of an administrative requirement Fannie Mae imposed for mortgage-backed security transactions, rather than the delivery of a different mortgage.
	The LTV, CLTV, and HCLTV ratios at the time of conversion must not exceed the maximum allowable limits for fixed-rate mortgages, see the *Standard ARM Plan Matrix*. If the ARM had negatively amortized, the LTV ratio (and the CLTV ratio and the HCLTV ratio) requirement must be satisfied as a result of • Subsequent normal amortization • The application of funds contributed by the borrower, or • An increase in the value of the property. **Note**: Increase in property value must be supported by a current appraisal.

Delivery Requirements and Security Instruments for ARMs Converted to Fixed-Rate Mortgages

Lenders must identify each converted ARM that was repurchased from an MBS pool because the conversion to fixed-rate option was exercised and subsequently redelivered to Fannie Mae as a whole loan delivery of a fixed-rate mortgage with SFC 036.

Lenders must include in the delivery package a *Loan Modification Agreement (Form 3179) as evidence of the conversion to a fixed-rate mortgage.*

> **Note**: A different (but substantially equivalent) modification agreement is also acceptable, as long as it includes an enforceable due-on-sale clause.

✓	**Modification Agreement Requirements**
	Lenders must determine whether a modification agreement has to be recorded in each particular jurisdiction in order to preserve the lien position of the mortgage.
	If recordation is required, lenders must submit the recorded instrument when it delivers the mortgage for purchase or securitization.
	Lenders must obtain a title bring-down through the date of the recordation.

Mortgage Documents for Fixed-Rate Conversion Option

Execution of Fannie Mae's standard riders or addenda that provide the terms for conversion to a fixed-rate mortgage or any other conversion option instrument is not required if:

- a convertibility provision was included in the adjustable-rate note, or
- the lender previously agreed to a conversion modification despite the fact that the loan documents did not give the borrower an option to convert. In this instance, lenders must provide a modification agreement to document the conversion and obtain a title bring-down through the date of the recordation.

See Riders & Addenda for current standard riders or addenda.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B2-1.4-04, Temporary Interest Rate Buydowns (07/29/2014)

Introduction

This topic contains information on temporary interest rate buydowns, including:

Provisions for Temporary Interest Rate Buydown Plans

The table below provides the general requirements under which Fannie Mae purchases or securitizes loans subject to temporary interest rate buydown plans.

✓	General Requirements for Loans with Temporary Interest Rate Buydown Plans
	Temporary interest rate buydowns are allowed on fixed-rate mortgages and certain ARM plans for principal residences or second homes provided the rate reduction does not exceed 3%, and the rate increase will not exceed 1% per year.
	The buydown plan must be a written agreement between the party providing the buydown funds and the borrower.
	All of the terms of the buydown plan must be disclosed to Fannie Mae, the mortgage insurer, and the property appraiser.
	The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan. In no event may the buydown plan change the terms of the mortgage note.

Buydown Funds Provided by Interested Parties to the Transaction

When the source of the buydown funds is an interested party to the property sale or purchase transaction, Fannie Mae's interested-party contribution limits apply. (See B3-4.1-02, Interested Party Contributions (IPCs).)

Lender-Funded Buydowns

When the lender funds the buydown, the buydown agreement must require that the funds in the buydown account be transferred to the new servicer if the mortgage is included as part of a subsequent transfer of servicing.

Buydown Agreements

The buydown agreement must provide that the borrower is not relieved of the obligation to make the mortgage payments required by the terms of the mortgage note if, for any reason, the buydown funds are not available.

The buydown agreement may include an option for the buydown funds to be returned to the borrower or to the lender, if it funded the buydown, if the mortgage is paid off before all of the funds have been applied.

A copy of the buydown agreement must be included in the delivery documentation for the mortgage.

Eligible Transaction Types

The following table lists the transaction types that are eligible and ineligible for temporary buydowns:

Transaction Type	Eligibility
Principal residence	Eligible
Second homes	Eligible
Investor properties	Ineligible
Cash-out refinance transactions	Ineligible
ARMs	Restricted

For specific ARM plan restrictions, refer to the following:

- B2-1.4-02, Adjustable-Rate Mortgages (ARMs), and
- B5-4.1-02, Texas Section 50(a)(6) Loan Eligibility.

Qualifying the Borrower

When underwriting loans that have a temporary interest rate buydown, the lender must qualify the borrower based on the note rate without consideration of the bought-down rate.

For qualifying requirements, see B3-6-04, Qualifying Payment Requirements.

Terms of the Buydown

Fannie Mae does not place a limit on the total dollar amount of an interest rate buydown.

The total dollar amount of an interest rate buydown must be consistent with the terms of the buydown period.

An interest rate buydown plan must provide for:

- a buydown period not greater than 36 months, and
- increases of not more than 1% in the portion of the interest rate paid by the borrower in each 12-month interval.

More frequent changes are permitted as long as the total annual increase does not exceed 1%.

Buydown Funds

The table below provides Fannie Mae requirements for treatment of buydown funds.

✓	Requirement
	Buydown accounts must be established and fully funded by the time the lender submits the mortgage to Fannie Mae for purchase or securitization.
	Funds for buydown accounts must be deposited into custodial bank accounts. **Note**: Buydown funds cannot be included in accounts with the lender's other corporate funds.
	The borrower's only interest in buydown funds is to have them applied toward payments as they come due under the note.
	Buydown funds are not refundable unless the mortgage is paid off before all the funds have been applied.
	Buydown funds cannot be used to pay past-due payments.
	Buydown funds cannot be used to reduce the mortgage amount for purposes of determining the LTV ratio.

Disposing of Buydown Funds

If the mortgage is liquidated or the property is sold during the buydown period, the lender should dispose of the buydown funds in the following manner:

Status of Mortgage	Disposition of Funds
The mortgage is paid in full.	The funds should be credited to the total amount required to pay off the mortgage, or they may be returned to either the borrower or the lender as specified in the buydown agreement.
The mortgage is foreclosed.	The funds are used to reduce the mortgage debt.
The property is sold and the mortgage is assumed by the purchaser.	The funds may continue to be used to reduce the mortgage payments under the original terms of the buydown plan.

MBS Pool Considerations

When a lender includes a mortgage with a significant interest rate buydown—such as a 3-2-1 temporary interest rate buydown—in an MBS pool, there are restrictions on the maximum amount of loans that can have a significant temporary buydown. See C3-2-01, Determining Eligibility for Loans Pooled into MBS, for additional information.

Delivery Requirements

The following special feature codes must be delivered, depending on the type of interest-rate buydown:

If the temporary interest-rate buydown provides for	Then the mortgage loan must be identified with
• a difference of 2 percentage points or less between the actual note rate and the “bought-down” interest rate, or • a buydown period of 2 years or less,	SFC 009
• a difference of more than 2 percentage points between the actual note rate and the “bought-down” rate, or • a buydown period greater than 2 years,	SFC 014

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Section B2-1.5, Other Loan Attributes and Related Policies

B2-1.5-01, Loan Limits (02/02/2022)

Introduction

This topic contains information on loan limits, including:

- Overview
- Loan Limits Defined
- Loan Limits and Modified Loans

Overview

Fannie Mae can only purchase loans up to a certain dollar amount. This dollar amount is known as the conforming loan limit. Fannie Mae's loan limits are imposed under its federal charter as amended by law.

The loan limits apply to all conventional loans delivered to Fannie Mae for whole loan purchase or MBS pool issuance and are based on the original loan amount of the loan (irrespective of the origination date). The limits are subject to change annually and vary, depending upon the number of units in the property and the property's location. The conforming loan limits are posted on Fannie Mae's website.

Lenders are responsible for ensuring that the original loan amount of each loan does not exceed the applicable maximum loan limit for the specific area in which the property is located at the time the loan is delivered to Fannie Mae.

Loan Limits Defined

Fannie Mae's first mortgage loan limits are defined in terms of baseline (also known as "general") loan limits and high-cost area loan limits:

- The baseline limits apply to the majority of the loans that Fannie Mae purchases.
- The high-cost area loan limits apply to loans secured by properties in designated high-cost areas, as determined by Fannie Mae's regulator. The high-cost area loan limits vary across the country.

High-balance loans are subject to the high-cost area loan limits. Fannie Mae's eligibility and delivery requirements may vary for high-balance loans. See Chapter B5-1, High-Balance Mortgage Loans for additional information.

If the loan is a first lien securing an ownership interest in a co-op corporation, the amount of the first lien and prorated share of the co-op corporation blanket mortgage cannot exceed Fannie Mae's loan limits.

Fannie Mae has no minimum original loan amount requirement for either whole loans or MBS loans.

Loan Limits and Modified Loans

Loan limits for modified loans are based on the original loan amount of the loan and not on the unpaid principal balance of the loan at the time of modification or acquisition by Fannie Mae. A modified loan with an original loan amount exceeding the current loan limit is not eligible for purchase by Fannie Mae, even though the balance at the time of the modification may be at or below the current applicable loan limit.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-01	February 02, 2022
Announcement SEL-2019-01	February 06, 2019

B2-1.5-02, Loan Eligibility (07/05/2023)

Introduction

This topic contains information on mortgage loan eligibility requirements, including:

- Ability to Repay Loan Eligibility Requirements
- Acceptable Loan Terms
- HOEPA and State Higher-Priced Loans
- Impact of Special Assessments on Maximum Loan Amount
- Premium Pricing
- Private Transfer Fee Covenants
- Age of Loan
- Property Value for Loans Sold More than Four Months from Note Date
- Seasoned Loans
- Modified Loans

- Nonstandard Payment Collection Options

Ability to Repay Loan Eligibility Requirements

The following provisions apply to loans with application dates on or after January 10, 2014.

> **Note:** As to any loan for which the original application was made before January 10, 2014, but which was assumed on or after January 10, 2014, and subsequently purchased or securitized by Fannie Mae, then, for eligibility purposes, the application date is considered to be the date on which Truth in Lending Act disclosure requirements were triggered with respect to such assumption.

ATR Covered Loans. An ATR Covered Loan is a loan subject to the TILA's ability to repay requirements under Regulation Z and is otherwise not an ATR Exempt Loan (defined below). An ATR Covered Loan must meet the following requirements in addition to the other underwriting and eligibility requirements in the *Selling Guide:*

- have a loan term not exceeding 30 years (see Acceptable Loan Terms below);
- be a fully amortizing loan, as defined in Regulation Z:
  - the loan must have regular periodic payments that are substantially equal that do not result in an increase in the principal balance or allow the borrower to defer repayment of principal;
- have total points and fees as described below under Points and Fees Limitations; and
- have an APR-APOR spread as described below under APR-APOR Spread Limitations.

The ATR Covered Loan requirements apply to acquisitions of newly originated loans (including government mortgage loans). These requirements do not apply to certain assumptions or modifications of existing Fannie Mae loans regardless of the dates on which the loans being assumed or modified were originally closed. Refer to the regulation for the applicable requirements.

ATR Exempt Loans. An ATR Exempt Loan is, with certain exceptions, a loan that either is not subject to TILA or is exempt from the ability to repay requirements in Regulation Z (12 CFR § 1026.43(a) or (d)). For purposes of determining whether a loan is an ATR Exempt Loan, lenders must follow the TILA and Regulation Z definitions.

> **Note**: The classification of certain transactions for TILA purposes and for eligibility and underwriting purposes by Fannie Mae do not always align. For example, Fannie Mae defines a four-unit property where the borrower occupies one of the units as a "principal residence." If under TILA such a loan is considered to be for commercial or business purposes, it will be exempt from TILA and therefore considered an ATR Exempt Loan by Fannie Mae.

Fannie Mae purchases or securitizes ATR Exempt Loans as long as such loans meet the other eligibility and underwriting requirements described in this Guide.

Points and Fees Limitations. For purposes of these requirements, "total points and fees" and "total loan amount" must be calculated in accordance with Regulation Z (12 CFR § 1026.32).

- ATR Covered Loans: Total points and fees may not exceed 3% of the total loan amount or such different amount in accordance with the qualified mortgage provisions of Regulation Z (12 CFR § 1026.43(e)(3)(i)). If a lender makes a cure payment in the amount and by the time required by 12 CFR § 1026.43(e)(3)(iii), such loan satisfies this requirement.

- ATR Exempt Loans: Total points and fees may not exceed 5% of the total loan amount. This determination may take into account either of the following adjustments:
    - permitted reduction of total points and fees pursuant to 12 CFR § 1026.31(h); or
    - in the case of loans not subject to TILA, restitution to the borrower of at least that portion of total points and fees that exceeded 5% at the time of loan closing.

APR-APOR Spread Limitations. Effective for loans with applications dates on and after July 1, 2021, the APR-APOR spread is the maximum difference by which the loan's APR cannot exceed the APOR. (Note: Loans with application dates before July 1, 2021 provided the loans otherwise meet the Revised QM Rule.)

- **ATR Covered Loans:** The spread may not exceed 2.25% or a different amount as specified in the Revised General QM Rule, calculated in accordance with the provisions of that rule.

> **Note:** For ARMs with initial fixed periods of five years or less, the APR must be calculated using the maximum interest rate that could apply during the first five years after the first payment is due.

- ATR Exempt Loans: The spread may not exceed 6.5% or more calculated in accordance with the Revised General QM rule.

Acceptable Loan Terms

Fannie Mae purchases or securitizes loans that have original terms up to 30 years. The term of a first mortgage may not extend more than 30 years beyond the date that is one month prior to the date of the first payment. The minimum original term is 85 months, subject to applicable committing and delivery requirements for whole loans and loans in MBS.

Exception: The only exception to these requirements is for single-closing construction-to-permanent loans, which must have a loan term not exceeding 30 years after conversion to permanent financing (disregarding the construction period). See B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions.

HOEPA and State Higher-Priced Loans

A loan that is subject to the Home Ownership and Equity Protection Act of 1994 (HOEPA), as described in Section 32 of Regulation Z, is not eligible for delivery to Fannie Mae.

In addition, Fannie Mae does not purchase or securitize loans that meet the definitions under the following laws of the state in which the property is located ("state higher-priced loans"), regardless of whether any provision of such state law is preempted by federal law with respect to a particular loan or for a particular originator:

State	Loan Type	Description
Arkansas	High-cost home loan	Loans delivered on or after September 1, 2003 that meet the definition of “high-cost home loan” under the Arkansas Home Loan Protection Act (Ark. Code Ann. §§ 23-53-101 et seq.), notwithstanding the “safe harbor” language contained in § 23-53-103(5)(B).
Georgia	Home Loan	Loans originated between October 1, 2002 and March 7, 2003 that are governed by the Georgia Fair Lending Act (Ga. Code Ann. §§ 7-6A-1 et seq.).
Georgia	High-cost home loan	Loans delivered on or after January 1, 2003 that meet the definition of “high-cost home loan” under the Georgia Fair Lending Act (Ga. Code Ann. §§ 7-6A-1 et seq.), as amended effective March 7, 2003.
Illinois	High risk home loan	Loans delivered on or after January 1, 2004 that meet the definition of “high risk home loan” under the Illinois High Risk Home Loan Act (§ 815 Ill. Comp. Stat. 137/1 et seq.).
Indiana	High cost home loan	Loans delivered on or after January 1, 2005 that meet the definition of “high cost home loan” under the Indiana Home Loan Practices Act (Ind. Code Ann. §§ 24-9-1 et seq.), notwithstanding the “safe harbor” language contained in § 24-9-1-1.

State	Loan Type	Description
Kentucky	High-cost home loan	Loans delivered on or after September 1, 2003 that meet the definition of “high-cost home loan” under the Kentucky high-cost home loan statute (Ky. Rev. Stat. § 360.100).
Maine	High-rate, high-fee mortgage	Loans delivered on or after January 1, 2008 that meet the definition of “high-rate, high-fee mortgage” under the Maine Consumer Credit Code – Truth in Lending (Me. Rev. Stat. Tit. 9-A §§ 8-101 et seq.).
Massachusetts	High-cost home mortgage loan	Loans delivered on or after November 7, 2004 that meet the definition of “high cost home mortgage loan” under the Massachusetts Predatory Home Loan Practices Act (Mass. Gen. Laws Ann. ch.183C).
New Jersey	High-cost home loan	Loans delivered on or after November 27, 2003 that meet the definition of “high-cost home loan” under the New Jersey Home Ownership Security Act of 2002 (N.J. Rev. Stat. §§ 46:10B-22 et seq.).
New Mexico	High-cost home loan	Loans delivered on or after January 1, 2004 that meet the definition of “high-cost home loans” under the New Mexico Home Loan Protection Act (N.M. Stat. Ann. §§ 58-21A-1 et seq.).

State	Loan Type	Description
New York	High-cost home loan	Loans delivered on or after April 1, 2003 that meet the definition of “high-cost home loan” under the New York Banking Law § 6-l.
New York	Subprime home loan	Loans delivered on or after September 1, 2008 that meet the definition of “subprime home loan” under New York Banking Law § 6-m.
Rhode Island	High-cost home loan	Loans delivered on or after December 31, 2006 that meet the definition of “high-cost home loan” under the Rhode Island Home Loan Protection Act (R.I. Gen. Laws §§ 34-25.2-1 et seq.), notwithstanding the exemptions contained in § 34-25.2-11 of the Rhode Island law.
Tennessee	High-cost home loan	Loans delivered on or after January 1, 2007 that meet the definition of “high-cost home loan” under the Tennessee Home Loan Protection Act (Tenn. Code Ann. §§ 45-20-101 et seq.), notwithstanding the preemption provision contained in § 45-20-111 of the Tennessee law.

Impact of Special Assessments on Maximum Loan Amount

If special assessments have been levied against the property and they are not paid before or at closing, the maximum loan amount otherwise available must be reduced by the amount of the unpaid special assessments (unless sufficient deposits to pay them will be collected as part of the loan payment).

If the security property may be subject to liens for taxes and special assessments and the liens are not yet due and payable, Fannie Mae does not consider these conditions, restrictions, and encumbrances material and does not require a reduction in the maximum loan amount.

The lender must provide documentation to show that the current installments of taxes and assessments (or future installments of special assessments that have been levied) - including those which may have been attached as prior liens, but which are not now in arrears - have been paid or that sufficient deposits are being collected to pay them.

Premium Pricing

Premium pricing refers to situations when a borrower selects a higher interest rate on a loan in exchange for a lender credit. The lender credit cannot be used to fund any portion of the borrower's down payment, and should not exceed the amount needed to offset the borrower's closing costs.

Any excess lender credit required to be returned to the borrower in accordance with applicable regulatory requirements is considered an overpayment of fees and charges, and may be applied as a principal curtailment or returned in cash to the borrower. See the following sections for additional details on lender credits derived from premium pricing:

- B3-4.1-01, Minimum Reserve Requirements
- B3-4.1-02, Interested Party Contributions (IPCs)
- B3-4.3-06, Grants and Lender Contributions
- B5-5.1-02, Community Seconds Loan Eligibility

Private Transfer Fee Covenants

In accordance with a regulation issued by the Federal Housing Finance Agency on March 16, 2012, and codified at 12 CFR Part 1228 (the "Private Transfer Fee Regulation"), except as provided below, Fannie Mae will not purchase or securitize loans on properties encumbered by private transfer fee covenants if those covenants were created on or after February 8, 2011, unless permitted by the Private Transfer Fee Regulation.

The lender must establish policies and/or procedures to ensure that the loans it delivers to Fannie Mae, whether or not the loans were originated by the lender, are not secured by properties encumbered with a private transfer fee that is unacceptable under the Private Transfer Fee Regulation. The policies and/or procedures will be reviewed by Fannie Mae as part of the lender's operational review process.

As with all other federal, state, and local laws, the lender (and any third-party originator it uses) must be aware of, and in full compliance with, the Private Transfer Fee Regulation. (Refer to the Private Transfer Regulation for further detail concerning acceptable and unacceptable private transfer fee covenants, as well as the definitions of "private transfer fee" and "private transfer fee covenant.")

Notwithstanding the Private Transfer Fee Regulation, Fannie Mae will purchase certain loans that are part of shared equity transactions and secured by properties encumbered by private transfer fee covenants that meet the conditions in B5-5.3-02, Shared Equity Transactions: General Requirements .

Age of Loan

To be eligible for purchase by Fannie Mae on a flow basis, a loan must be no more than six months old measured from the first payment date to the "Purchase Ready" date (whole loans) or the MBS pool issue date (MBS loans).

For example, if a whole loan is in "Purchase Ready" status in May 2023 or an MBS loan is in a May 1, 2023 issued pool, the first payment date can be no earlier than December 1, 2022.

> NOTE: HomeStyle Renovation loans that are not delivered until renovation is complete (and delivered with SFC 279) can be sold up to 15 months after the note date. See B5-3.2-01, HomeStyle Renovation Mortgages for additional requirements.

Property Value for Loans Sold More than Four Months from Note Date

For loans that are more than four months old from the date of the note to the date the loan is sold to Fannie Mae, the current value of the property cannot be less than the original value. If the lender is unable to warrant that the current value of the property is not less than the original value of the property, the loan is not eligible for sale to Fannie Mae by the lender except on a negotiated basis.

Seasoned Loans

Seasoned loans are loans that are more than one year old from the first payment date to:

- the loan purchase date for whole loans, or
- the pool issue date for MBS loans.

> **Note:** Fannie Mae restricts purchase or securitization of seasoned loans to those that are delivered as a negotiated transaction. Contact Fannie Mae customer account team for additional information.

The table below provides the requirements for seasoned loans.

✓	**Seasoned Loan Requirements**
	Seasoned loans may not be included in Fannie Majors MBS pools. See Chapter C3–6, Pooling Loans into Fannie Majors.
	The lender’s underwriting of the borrower’s credit and the security property for a seasoned loan must meet the current requirements set out in this Guide.
	The borrower has not had a 30-day delinquency in the 12-month period that precedes the lender’s delivery of the loan to Fannie Mae.
	If the current borrower assumed the loan and has owned the property for less than 12 months, they must have had no 30-day delinquencies since purchasing the property.

✓	Seasoned Loan Requirements
	The borrower's ability to pay must not have changed adversely. **Note**: If the loan has been assumed, the new borrower's credit must be fully documented and underwritten in accordance with the same standards used for new loans, unless the transfer of ownership was one of the exempt transactions that legally prohibit a credit review. See the *Servicing Guide* for an explanation of exempt transactions.
	The current value of the property cannot be less than the original value. If the lender is unable to provide this warranty, the loan is not eligible for delivery to Fannie Mae by the lender except on a negotiated basis.
	The status of the title to the property must not have been affected adversely.
	The loan must satisfy Fannie Mae's current applicable mortgage eligibility requirements.
	If the loan is secured by a unit in a condo, co-op, or PUD project, the project must satisfy Fannie Mae's current applicable project eligibility requirements.
	If the loan was modified prior to delivery to Fannie Mae, it must be a modification that is eligible for delivery in accordance with the requirements of this Guide as described below under Modified Loans.
	Except to the extent otherwise expressly permitted in the *Selling Guide* (A2-3.2-01, Loan Repurchases and Make Whole Payments Requested by Fannie Mae), or the *Servicing Guide* with respect to the redelivery of loans to Fannie Mae, the loan being delivered cannot be one that was required to be repurchased by a secondary market investor, government-sponsored enterprise, or private institutional investor other than Fannie Mae for any documentation, underwriting, property valuation, or other deficiencies and/or issues with the property (including project eligibility if the property is in a condo, co-op, or PUD project), borrower credit or other deficiencies or for any other reason.

Modified Loans

A modified loan is a loan that was legally modified after loan closing in a way that changed any of the loan terms or attributes reflected in the original note. In general, loans with material modifications, such as changes to the original loan amount, interest rate, final maturity, or product structure, are not eligible for delivery to Fannie Mae.

A loan whose note was corrected to effect technical or typographical corrections is not considered to be a modified loan and is eligible for delivery. All of the changes must correct errors in the executed documents, which reflect the terms of the original loan transaction. None of the changes can be the result of a subsequent modification or amendment to the original loan amount, interest rate, or other material loan term. The correction may not result in a change to, or create any inconsistencies with, other legal documents.

Fannie Mae permits the delivery of certain other modified loans based primarily on whether the loan was owned or securitized by Fannie Mae prior to the modification, or the modification of the loan was done in accordance with a standard product or is common and customary in a certain area.

The table below provides a comprehensive overview of Fannie Mae requirements applicable to the delivery of modified loans. If the loan is not eligible in accordance with standard *Selling Guide* provisions, it may be eligible in accordance with a variance. Such variances may be subject to additional terms and conditions.

Category of Modification	**Owned or Securitized by Fannie Mae Prior to or at Time of Modification?**	**Eligible for Delivery to Fannie Mae After Modification?**	***Selling Guide* or *Servicing Guide* Reference**
Converted ARMs	Yes	Yes	*Selling Guide*: See B2-1.4-03, Convertible ARMs, for convertible ARMs that are redelivered to Fannie Mae after their removal from an MBS pool
	No	No	N/A
Maturing Balloon with Conditional Right to Refinance or Modify	No	No	N/A
Borrower Principal Curtailment and Recast Over Remaining Term	Yes	N/A — No redelivery required	*Servicing Guide*: See Chapter C-1, Processing Mortgage Loan Payments
	No	Yes	Selling Guide: See below and B2-1.5-05, Principal Curtailments

Category of Modification	Owned or Securitized by Fannie Mae Prior to or at Time of Modification?	Eligible for Delivery to Fannie Mae After Modification?	***Selling Guide* or *Servicing Guide* Reference**
Changes to Borrowers Due to Death, Marriage, or Other Allowable Property Transfers	Yes	N/A — No redelivery required	*Servicing Guide*: See Chapter D1–4, Transfers of Ownership
	No	No	N/A
Single-Closing Construction-to-Permanent Financing	No	Yes	*Selling Guide*: See B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions
New York Consolidation, Extension, and Modification	No	Yes	*Selling Guide*: See B8-2-02, Special-Purpose Security Instruments
Modifications that Result in Material Changes to Loan Terms	No	No	*Selling Guide: See Modified Loans, above*

Borrower Principal Curtailment and Recast Over Remaining Term

Fannie Mae will purchase a re-amortized loan following the application of a principal curtailment received from the borrower. The curtailment reduces the principal balance and monthly mortgage payment over the remaining term of the loan. The following requirements must be met:

- The only changes to the original note terms are a corresponding reduction in the principal balance and a re-amortized reduction to the monthly mortgage payment.
- The original note amount must comply with maximum loan limits in effect at the time of acquisition. See B2-1.5-01, Loan Limits.
- When the loan was underwritten, the borrower was fully qualified based on the original note amount.
- The loan must be delivered with Special Feature Code 76.
- The lender must complete an *Agreement for Modification, Re-Amortization, or Extension of Mortgage* (Form 181), in accordance with the requirements of the *Servicing Guide*, place a copy in the loan servicing file, and deliver the completed documents to the applicable document custodian in accordance with *Selling Guide* E-2-01, Required Custodial Documents.
- The delivery data must comply with the delivery instructions for principal curtailments.

See B2-1.5-05, Principal Curtailments for additional requirements related to principal curtailments.

Nonstandard Payment Collection Options

A nonstandard payment collection option is a payment option that permits the borrower to make loan payments on a schedule other than a monthly basis. If the nonstandard payment collection option terms are included in the loan documents, then the loan is ineligible for delivery to Fannie Mae.

Lenders may offer nonstandard payment collection plans as part of a separate agreement; however, the loan is eligible for delivery to Fannie Mae only under the following conditions:

- the agreement must not impact the terms and conditions of the mortgage note, nor the reporting or remittance of payments to Fannie Mae;
- the agreement must be cancelable by the borrower without cost; and
- the loan must be identifiable by the lender such that the information can be provided to Fannie Mae upon request.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-06	July 05, 2023
Announcement SEL-2023-04	May 03, 2023
Announcement SEL-2021-10	November 03, 2021
Announcement SEL-2021-08	September 01, 2021
Announcement SEL-2021-05	June 02, 2021
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2020-05	September 02, 2020
Announcement SEL-2019-07	August 07, 2019

Announcements	Issue Date
Announcement SEL-2019-05	June 05, 2019

B2-1.5-03, Legal Requirements (06/03/2020)

Introduction

This topic contains information on legal requirements, including:

- First Mortgage Lien Position
- Personal Property
- Rental Property Leases
- Mortgages with a Capitalization Option
- Mortgages Permitting Open-end Advances

First Mortgage Lien Position

If the mortgage being delivered to Fannie Mae is a first mortgage, the lien of the security instrument must be a first and paramount lien on the borrower's estate in the real property.

Personal Property

Personal property may not be included as additional security for any mortgage on a one-unit property unless otherwise specified by Fannie Mae. For example, certain personal property is pledged when the *Multistate Rider and Addenda* (Form 3170) is used.

Rental Property Leases

Leases that predate the mortgage could have a superior claim to the mortgage. Furthermore, state laws may differ on the relationship between an unrecorded lease and a subsequent mortgage. The lender is responsible for ensuring clear title and first lien enforceability in accordance with A2-2-07, Life-of-Loan Representations and Warranties

Mortgages with a Capitalization Option

Some mortgage instruments permit the note holder to capitalize delinquent interest or sums advanced to pay insurance premiums, property taxes, or other expenses required to protect the value of the security property by adding them to the outstanding principal balance of the mortgage.

Fannie Mae will not purchase or securitize mortgages where any such funds have been capitalized or advanced by the note holder prior to delivery to Fannie Mae.

Mortgages Permitting Open-end Advances

Fannie Mae purchases or securitizes a mortgage that includes an open-end advance provision only if the provision gives Fannie Mae the option not to make any advances. If funds were advanced prior to delivery, the transaction is considered a modified mortgage that is not eligible for delivery. See B2-1.5-02, Loan Eligibility.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-03	June 03, 2020

B2-1.5-04, Escrow Accounts (04/01/2020)

Introduction

This topic contains information on escrow accounts, including:

- Escrow Accounts
- Escrow Waivers

Escrow Accounts

First mortgages generally must provide for the deposit of escrow funds to pay as they come due, including taxes, ground rents, premiums for property insurance, and premiums for flood insurance. However, escrow deposits for the payment of premiums for borrower-purchased mortgage insurance (if applicable) are mandatory. For the calculation of the monthly real estate tax payment lenders must comply with all federal and state regulations in calculating the amount to be collected for any established escrow account.

Fannie Mae does not require an escrow deposit for property or flood insurance premiums for an individual unit in a condo, co-op, or PUD when the project in which the unit is located is covered by a blanket insurance policy purchased by the homeowners' association or co-op corporation.

If a special assessment levied against the property was not paid at loan closing, the borrower's payment must include appropriate accruals to ensure that any estimated annual payment toward the assessment will be accumulated by the time it comes due.

For certain refinance transactions where the borrower is financing real estate taxes in the loan amount, an escrow account is required, subject to applicable laws or regulations. See B2-1.3-03, Cash-Out Refinance Transactions for more information.

Escrow Waivers

Fannie Mae advocates the establishment of an escrow account for the payment of taxes and insurance, particularly for borrowers with blemished credit histories or first-time homeowners.

Unless required by law, lenders may waive escrow account requirements for an individual first mortgage, provided the standard escrow provision remains in the mortgage loan legal documents. Lenders cannot waive an escrow account for certain refinance transactions (see above) or for the payment of premiums for borrower-purchased mortgage insurance (if applicable). When the requirement for an escrow account is waived, the lender must retain Fannie Mae's right to enforce the requirement in appropriate circumstances.

Lenders must have a written policy governing the circumstances under which escrow accounts may be waived. When a lender permits escrow waivers, subject to the mortgage documents and applicable law, the lender's written policies must provide that the waiver not be based solely on the LTV ratio of a loan, but also on whether the borrower has the financial ability to handle the lump sum payments of taxes, insurance, and other items described above.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	**Issue Date**
Announcement SEL-2020-02	April 01, 2020
Announcement SEL-2019-09	December 04, 2019
Announcement SEL-2019-07	August 07, 2019

B2-1.5-05, Principal Curtailments (11/03/2021)

Introduction

This topic contains information on principal curtailments, including:

- Overview
- Acceptable Curtailments
- Documentation
- Delivery Instructions

Overview

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the mortgage loan. Fannie Mae permits certain curtailments prior to loan delivery provided that the delivery data reflects the curtailment as described below.

Acceptable Curtailments

Fannie Mae permits curtailments for the following reasons:

- The lender may apply a curtailment to refund the overpayment of fees or charges paid by the borrower, in any amount, in accordance with applicable regulatory requirements.
- If the borrower receives more cash back than is permitted for limited cash-out refinances, the lender can apply a curtailment to reduce the amount of cash back to the borrower to bring the loan into compliance with the maximum cash-back requirement. The maximum amount of the curtailment cannot exceed the lesser of $2,500 or 2% of the original loan amount for the subject loan. For example, if the borrower received $3,500 cash back at closing on a loan amount of $200,000, the lender could apply a $1,500 curtailment prior to delivery to Fannie Mae. This would result in “net cash back” to the borrower of $2,000, thus meeting Fannie Mae’s limited cash-out refinance requirement.
- Fannie Mae also allows additional principal payments remitted by a borrower to prepay the mortgage loan as permitted by the loan documents. This includes curtailments applied to the principal balance to reduce the monthly mortgage payment. See B2-1.5-02, Loan Eligibility.

Lenders must apply these curtailments prior to delivery of the loan to Fannie Mae. Such curtailments may not be held until after whole loan delivery or for application in the month subsequent to issuance of an MBS. Curtailments received after loan delivery must be applied in accordance with the *Servicing Guide*.

Documentation

If the curtailment is made at the time of closing, the amount must be clearly documented on the settlement statement. If the curtailment is applied after closing, but before delivery, the mortgage loan file (or servicing file) must be documented with the amount of the curtailment and the reason or source of the curtailment (for example, lender refund or borrower-initiated), and include any modification agreement used to reduce the monthly payment following the application of the curtailment.

Delivery Instructions

Refer to the Loan Modifications Job Aid for the delivery of loans impacted by a curtailment applied prior to the delivery of the loan to Fannie Mae.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-10	November 03, 2021

Chapter B2-2, Borrower Eligibility

Introduction

This chapter explains the requirements related to borrower eligibility.

B2-2-01, General Borrower Eligibility Requirements (12/14/2022)

Introduction

This topic contains information on general borrower eligibility requirements, including:

- General Borrower Eligibility Requirements
- General Borrower Identity Criteria
- Tax Identification Numbers

- Establishing Borrower Ownership Interest

General Borrower Eligibility Requirements

Fannie Mae purchases or securitizes mortgages made to borrowers who are natural persons and have reached the age at which the mortgage note can be enforced in the jurisdiction where the property is located. There is no maximum age limit for a borrower.

Exceptions to the requirement that borrowers be natural persons are:

- *inter vivos* revocable trusts,
- HomeStyle Renovation mortgages, and
- land trusts in those states where the beneficiary is an individual. (Note: Fannie Mae permits land trusts on a negotiated basis for states where land trusts are widely accepted.)

See the following for additional information:

- B2-1.3-04, Prohibited Refinancing Practices,
- B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers on the Subject Transaction
- B2-2-05, Inter Vivos Revocable Trusts,
- B5-3.2-02, HomeStyle Renovation Mortgages: Loan and Borrower Eligibility, and
- *Community Land Trusts* in B5-5.3-01, Shared Equity Overview.

General Borrower Identity Criteria

A borrower is any applicant (e.g., individually or jointly) whose credit is used for qualifying purposes to determine ability to meet Fannie Mae's underwriting and eligibility standards. "Co-borrower" is a term used to describe any borrower other than the borrower whose name appears first on the note.

Lenders must confirm each borrower's identity prior to the extension of credit. Fannie Mae's requirements for borrower identity verification are intended to align with lenders' existing federal obligations under laws requiring information and document verification, including the Department of Treasury's Office of Foreign Assets Control (OFAC) regulations and the U.S. Patriot Act. See A3-2-01, Compliance With Laws, for additional information concerning borrower identity verification.

Tax Identification Numbers

Fannie Mae requires that each borrower have a valid Social Security number or Individual Taxpayer Identification Number (ITIN), in addition to meeting existing legal residency and documentation requirements. (For additional information, see B2-2-02, Non–U.S. Citizen Borrower Eligibility Requirements.)

DU and Loan Delivery may identify data integrity issues pertaining to the borrower's Social Security number. Lenders must take steps to resolve any issues, including invalid format, numbers not issued, borrower age/issue date discrepancies, or Social Security numbers associated with deceased individuals. If a lender cannot resolve any Social Security number inconsistencies, the lender must validate the Social Security number directly with the Social Security Administration (SSA). The following requirements apply:

- The lender may use one of the two methods listed below to validate a borrower's Social Security number:
  - Form SSA–89 (Authorization for the Social Security Administration to Release Social Security Number Verification), or
  - Electronic Consent Based Social Security Number Verification (eCBSV) Service.
- If using a third-party vendor, the lender must ensure that the vendor goes directly to the SSA to validate the Social Security number using one of the two methods listed above.
- The lender must retain documentation in the loan file that evidences the validation of the Social Security number.
- The lender must deliver the loan with SFC 162 if the Social Security number was validated through the SSA but there is a discrepancy identified with the Social Security number in the credit report, DU, or Loan Delivery edits.
- If the Social Security number cannot be validated with the SSA, the loan is not eligible for sale to Fannie Mae.

Establishing Borrower Ownership Interest

A borrower must establish ownership interest in the security property and become liable for the note (whether individually or jointly) by:

- signing the security instrument,
- signing the mortgage or deed of trust note,
- taking title to the property in the name of the individual borrower(s).

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2020-05	September 02, 2020

B2-2-02, Non–U.S. Citizen Borrower Eligibility Requirements (07/28/2015)

Introduction

This topic contains information on non–U.S. citizen borrower eligibility requirements.

- Non–U.S. Citizen Borrower Eligibility Requirements

Non–U.S. Citizen Borrower Eligibility Requirements

Fannie Mae purchases and securitizes mortgages made to non–U.S. citizens who are lawful permanent or non-permanent residents of the United States under the same terms that are available to U.S. citizens. Fannie Mae does not specify the precise documentation the lender must obtain to verify that a non–U.S. citizen borrower is legally present in the United States. The lender must make a determination of the non–U.S. citizen's status based on the circumstances of the individual case, using documentation it deems appropriate. By delivering the mortgage to Fannie Mae, the lender represents and warrants that the non–U.S. citizen borrower is legally present in this country.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B2-2-03, Multiple Financed Properties for the Same Borrower (06/01/2022)

Introduction

This topic contains information on multiple financed properties for the same borrower, including:

- Limits on the Number of Financed Properties
- Reserve Requirements
- Applying the Multiple Financed Property Policy to DU Loan Casefiles

Limits on the Number of Financed Properties

The following table describes the limits that apply to the number of financed properties a borrower may have.

Subject Property Occupancy	Transaction	Maximum Number of Financed Properties
Principal residence	Transactions other than HomeReady loans	No limit
Principal residence	HomeReady loans	DU and manually underwritten - 2
Second home or Investment property	All	DU - 10

Exception: High LTV refinance loans are exempt from the multiple financed property policies. See B5-7-01, High LTV Refinance Loan and Borrower Eligibility for additional information on these loans.

The number of financed properties calculation includes:

- the number of one- to four-unit residential properties where the borrower is personally obligated on the mortgage(s), even if the monthly housing expense is excluded from the borrower's DTI in accordance with B3-6-05, Monthly Debt Obligations
- the total number of properties financed (not the number of mortgages on the property nor the number of mortgages sold to Fannie Mae), with multiple unit properties (such as a two-unit) counting as one property;
- the borrower's principal residence if it is financed; and
- the cumulative total for all borrowers (though jointly financed properties are only counted once). For HomeReady loans, financed properties owned by a non-occupant co-borrower that are owned separately from the borrower are excluded from the number of financed properties calculation.

The following property types are not subject to these limitations, even if the borrower is personally obligated on a mortgage on the property:

- commercial real estate,
- multifamily property consisting of more than four units,
- ownership in a timeshare,
- ownership of a vacant lot (residential or commercial), or
- ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home).

Examples — Counting Financed Properties

- A HomeReady borrower is purchasing a principal residence and is obligated on a mortgage securing an investment property. A non-occupant co-borrower is solely obligated on mortgages securing three investment properties. In this instance, the transaction is eligible for HomeReady, as the occupant borrower will have two financed properties. The non-occupant co-borrower's financed properties are not included in the property count.

- The borrower is personally obligated on mortgages securing two investment properties and the co-borrower is personally obligated on mortgages securing three other investment properties, and they are jointly obligated on their principal residence mortgage. The borrower is refinancing the mortgage on one of the two investment properties. Thus, the borrowers have six financed properties.
- The borrower and co-borrower are purchasing an investment property and they are already jointly obligated on the mortgages securing five other investment properties. In addition, they each own their own principal residence and are personally obligated on the mortgages. The new property being purchased is considered the borrowers' eighth financed property.
- The borrower is purchasing a second home and is personally obligated on their principal residence mortgage. Additionally, the borrower owns four two-unit investment properties that are financed in the name of a limited liability company (LLC) of which they have a 50% ownership. Because the borrower is not personally obligated on the mortgages securing the investment properties, they are not included in the property count and the result is only two financed properties.
- The borrower is purchasing and financing two investment properties simultaneously. The borrower does not have a mortgage lien against their principal residence but does have a financed second home and is personally obligated on the mortgage, two existing financed investment properties and is personally obligated on both mortgages, and a financed building lot. In this instance, the borrower will have five financed properties because the financed building lot is not included in the property count.

Reserve Requirements

Additional reserve requirements apply to second home and investment properties based on the number of financed properties the borrower will have. The borrower must have sufficient assets to close after meeting the minimum reserve requirements. See B3-4.1-01, Minimum Reserve Requirements, for the financed properties requirements. The additional reserve requirements do not apply to HomeReady transactions.

Applying the Multiple Financed Property Policy to DU Loan Casefiles

If the borrower is financing a second home or investment property that is underwritten through DU and the borrower will have one to six financed properties, Fannie Mae's standard eligibility policies apply (for example, LTV ratios and minimum credit scores). If the borrower will have seven to ten financed properties, the mortgage loan must have a minimum representative credit score of 720; all other standard eligibility policies apply.

DU will determine the number of financed properties for the loan casefile based on the following data in the online loan application:

- If the Number of Financed Properties field is completed, DU will use that as the number of financed properties. The lender must complete this field with the number of financed one- to four-unit residential properties (including the subject transaction) for which the borrower(s) are personally obligated.
- If the Number of Financed Properties field is not provided, DU will use the number of residential properties in the Real Estate Owned (REO) section that include a mortgage payment, or that are

associated with a mortgage or HELOC, as the number of financed properties. Properties that are identified as commercial, multifamily, land, or farm in the Other Description field for each specific REO will not be used when determining the number of financed properties.

- If the Number of Financed Properties field and the REO information was not provided, DU will use the number of mortgages and HELOCs disclosed in the loan application as the number of financed properties. Note that in order for an accurate assessment of the loan to be performed, the REO data must be provided for all owned properties.
- When none of the information above is provided on the online loan application, DU will use the number of mortgages and HELOCs disclosed on the credit report as the number of financed properties.

> **Note**: In order to account for the subject property, DU will add “1” to the number of financed properties on purchase and construction transactions when the REO section, number of mortgages on the application, or number of mortgages on the credit report are used as the number of financed properties.

After determining the number of financed properties, DU will use that value to assess the eligibility of the loan, including the minimum credit score requirement for seven to ten financed properties, the minimum required reserves the lender must verify, and eligibility for HomeReady transactions.

DU will issue a message informing the lender of the number of financed properties that DU used and where that information was obtained (Number of Financed Properties field, REO section, number of mortgages on application, or number of mortgages on credit report). If DU used the information provided in the Number of Financed Properties field or in the REO section, and that information is inaccurate, the lender must update the data and resubmit the loan casefile to DU. If DU used the number of mortgages and HELOCs on the loan application or credit report as the number of financed properties, and that number is inaccurate, the lender must provide the correct number in the Number of Financed Properties field, or complete the REO section of the loan application and resubmit the loan casefile to DU.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-05	June 01, 2022
Announcement SEL-2021-08	September 01, 2021
Announcement SEL-2021-06	July 07, 2021
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2019-07	August 07, 2019

Announcements	Issue Date
Announcement SEL-2019-03	April 03, 2019

B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers on the Subject Transaction (09/02/2020)

Introduction

This topic contains information on guarantors, co-signers, or non-occupant borrowers on the subject transaction, including:

Definitions

Guarantors and co-signers are credit applicants who

- do not have ownership interest in the subject property as indicated on the title;
- sign the mortgage or deed of trust note;
- have joint liability for the note with the borrower;
- do not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate agent; and
- meet the requirements in B2-2-01, General Borrower Eligibility Requirements, except for the provisions related to establishing an ownership interest in the property.

Non-occupant borrowers are credit applicants on a principal residence transaction who

- do not occupy the subject property;
- may or may not have an ownership interest in the subject property as indicated on the title;
- sign the mortgage or deed of trust note;
- have joint liability for the note with the borrower(s);

- do not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate agent; and
- meet the requirements in B2-2-01, General Borrower Eligibility Requirements, except for the provisions related to establishing an ownership interest in the property.

> **Note**: Guarantors, co-signers, and non-occupant borrowers are permitted on purchase, limited cash-out and cash-out refinance transactions.

Down Payment and Qualifying Ratio Requirements for Manually Underwritten Loans

For manually underwritten loans, if the income of a guarantor, co-signer, or non-occupant borrower is used for qualifying purposes, the occupying borrower(s) must make the first 5% of the down payment from their own funds unless:

- the LTV or CLTV ratio is less than or equal to 80%; or
- the occupying borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution. See B3-4.3-04, Personal Gifts; B3-4.3-06, Grants and Lender Contributions; and B3-4.3-08, Employer Assistance, for additional information.

Using only the income of the occupying borrower(s) to calculate the DTI ratio, the maximum allowable DTI ratio is 43%.

> **Note**: This policy applies even if the combined qualifying ratios for the borrower and the guarantor, co-signer, or non-occupant borrower are well below Fannie Mae's standard qualifying ratio benchmark. Minimum credit score and reserve requirements based on the LTV ratio and combined qualifying ratios of all borrowers must be met per the *Eligibility Matrix*. See Section B3–5.4, Nontraditional Credit History, for additional requirements that apply when the transaction includes a borrower who does not have a credit score.

For additional information, see B3-6-02, Debt-to-Income Ratios.

LTV Ratio Requirements for Manually Underwritten Loans

For manually underwritten loans, if the income of a guarantor, co-signer, or co-borrower is used for qualifying purposes, and that guarantor, co-signer, or co-borrower will not occupy the subject property, the maximum LTV, CLTV, and HCLTV ratio may not exceed 90% (unless a Community Seconds is part of the transaction, in which case the CLTV ratio may not exceed 105% where permitted in the *Eligibility Matrix*.

LTV Ratio Requirements for Loan Casefiles Underwritten through DU

DU analyzes the risk factors in the loan casefile for all borrowers on the mortgage loan. Regardless of whether an individual borrower will be occupying the property as their principal residence, DU will consider the income, assets, liabilities, and credit of that borrower.

For DU loan casefiles, if the income of a guarantor, co-signer, or co-borrower is used for qualifying purposes, and that guarantor, co-signer, or co-borrower will not occupy the subject property, the maximum LTV, CLTV, and HCLTV ratio may not exceed 95% (unless a Community Seconds is part of the transaction, in which case the CLTV ratio may not exceed 105% where permitted in the *Eligibility Matrix*.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-05	September 02, 2020
Announcement SEL-2018-05	June 05, 2018

B2-2-05, Inter Vivos Revocable Trusts (10/31/2017)

Introduction

This topic contains information on revocable trusts, including:

- Overview
- Inter Vivos Revocable Trust as Eligible Mortgagor
- Lender Requirements
- Trust and Trustee Requirements
- Eligible Property and Occupancy Types
- Underwriting Considerations
- Title and Title Insurance Requirements
- Loan Delivery Data

Overview

Except as expressly provided elsewhere in the *Selling Guide*, Fannie Mae only accepts individuals as credit-qualifying borrowers. In addition, Fannie Mae normally deems property in which no borrower has an ownership interest as ineligible collateral. However, to accommodate the use of *inter vivos* trusts as an estate planning tool, Fannie Mae provides an exception for property held by *inter vivos* revocable trusts created by credit-qualifying borrowers.

Inter Vivos Revocable Trust as Eligible Mortgagor

An *inter vivos revocable trust is a trust that*

- an individual creates during their lifetime;
- becomes effective during its creator's lifetime; and
- can be changed or canceled by its creator at any time, for any reason, during that individual's lifetime.

Fannie Mae will accept an *inter vivos* revocable trust that has an ownership interest in the security property as an eligible mortgagor (a party to the security instrument) for all transaction types, provided it complies with the requirements in this topic.

> **Note**: A trust must meet Fannie Mae's revocability and other eligibility requirements at the time the loan is delivered. Trust eligibility is not affected if the trust documents contain a provision that the trust will, in the future, become irrevocable upon the death of one of the settlors. However, such a change in the trust structure after delivery of the mortgage loan may affect the eligibility of the trust as a mortgagor in a subsequent loan transaction.

Lender Requirements

A lender delivering a loan that has an *inter vivos revocable trust as mortgagor is responsible for:*

- determining that both the trust and the mortgage satisfy Fannie Mae eligibility criteria and documentation requirements;
- determining under the laws of the states in which it does business that it can originate mortgages to validly created *inter vivos* revocable trusts that meet the terms and conditions specified by Fannie Mae; and
- completing a review of the mortgage documentation, applicable state law, and the trust documents to ensure that title insurers provide full title insurance coverage without exceptions for the trust or the trustees for *inter vivos* revocable trusts in that state. (*See Title and Title Insurance Requirements* below for additional information.)

Legal document requirements are described in B8-5-02, Inter Vivos Revocable Trust Mortgage Documentation and Signature Requirements. Also see E-2-04, Signature Requirements for Mortgages to Inter Vivos Revocable Trusts, for signature requirements under different *inter vivos revocable trust scenarios.*

Trust and Trustee Requirements

The *inter vivos* revocable trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

The trustee(s) must include either:

- the individual establishing the trust (or at least one of the individuals, if there are two or more); or
- an institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.

The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the individual (or individuals) who are the borrower(s) under the mortgage or deed of trust note.

> **Note**: In the event the originally named trustee is unable or unwilling to serve, and the trust instrument has a mechanism for appointment of a successor trustee, the trust can properly act through the successor trustee.

Eligible Property and Occupancy Types

All property and occupancy types are eligible. For properties that are the borrower's principal residence, at least one individual establishing the trust must occupy the security property and sign the loan documents.

Underwriting Considerations

The loan must be underwritten with at least one individual establishing the trust as borrower. Additional individuals, including other individuals establishing the trust, may also be considered co-borrowers if those individuals' credit will be used to qualify for the loan.

Title and Title Insurance Requirements

The lender must retain in the individual loan file a copy of any trust documents that the title insurance company required in making its determination on the title insurance coverage.

The following requirements apply to title and title insurance:

- Title held in the trust does not in any way diminish Fannie Mae's rights as a creditor, including the right to have full title to the property vested in Fannie Mae should foreclosure proceedings have to be initiated to cure a default under the terms of the mortgage.
- The title insurance policy ensures full title protection to Fannie Mae.
- The title insurance policy states that title to the security property is vested in the trustee(s) of the *inter vivos* revocable trust.
- The title insurance policy does not list any exceptions with respect to the trustee(s) holding title to the security property or to the trust.
- Title to the security property is vested solely in the trustee(s) of the *inter vivos* revocable trust, jointly in the trustee(s) of the *inter vivos* revocable trust and in the name(s) of the individual borrower(s), or in the trustee(s) of more than one *inter vivos* revocable trust.

Loan Delivery Data

Only the information related to the individual(s) establishing the *inter vivos* revocable trust whose credit is used to qualify for the loan should be provided at the time of loan delivery, such as the borrower name and Social Security number. The name of the *inter vivos* revocable trust cannot be included within the loan delivery data.

A loan that has an *inter vivos* revocable trust as a mortgagor must be delivered with Special Feature Code 168 (in addition to any other special feature codes that may also be applicable to the transaction).

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B2-2-06, Homeownership Education and Housing Counseling (12/14/2022)

Introduction

This topic contains information on homeownership education and housing counseling, including:

- Overview
- Compliance with Law
- Definitions
- Transactions that Require Homeownership Education
- Meeting the Homeownership Education Requirement
- Housing Counseling
- Completion of Form 1103
- Additional Resources
- Summary of Homeownership Education and Housing Counseling Options

Overview

Fannie Mae believes that credit and underwriting guidelines alone are not always enough to assess a borrower's readiness for homeownership. High-quality homeownership education and housing counseling can provide the borrower with the additional information and resources to make informed decisions that support long-term homeownership sustainability. Fannie Mae requires programs that are aligned with the National Industry Standards (NIS) for Homeownership Education and Counseling or the U.S. Department of Housing and Urban Development (HUD) Counseling Program, or provided by a HUD-approved counseling agency.

Compliance with Law

All education, collection, and counseling efforts must comply with the requirements of applicable federal and state laws, including the Equal Credit Opportunity Act, the Fair Debt Collections Practices Act, and the Fair Credit Reporting Act.

Definitions

The following definitions apply to these requirements:

- **Homeownership Education**: Education with an established curriculum and instructional goals, provided in a group, classroom setting, or via other formats, that covers homeownership topics such as the home-buying process, how to maintain a home, budgeting, and the importance of good credit.
- **Housing Counseling**: One-on-one assistance that addresses unique financial circumstances and housing issues, and focuses on overcoming specific obstacles to achieve housing goals. Counseling includes topics such as repairing credit, locating cash for a down payment, recognizing predatory lending practices, understanding fair lending and fair housing requirements, avoiding foreclosure, and resolving a financial crisis. All housing counseling involves the creation of a budget and a written action plan, and includes a homeownership education component.

Transactions that Require Homeownership Education

For the following transactions, at least one borrower on the loan must complete homeownership education prior to loan closing:

- if all borrowers on the loan are relying solely on nontraditional credit to qualify, regardless of the loan product or whether the borrowers are first-time homebuyers;
- HomeReady purchase transactions, when all occupying borrowers are first-time homebuyers; or
- purchase transactions with LTV, CLTV, or HCLTV ratios greater than 95%, when all borrowers are first-time homebuyers.

> **Note**: The requirements that apply to purchases also apply to construction-to-permanent transactions that are processed as a purchase.

Meeting the Homeownership Education Requirement

To satisfy the homeownership education requirement, Fannie Mae permits any qualified third-party provider, independent of the lender, to administer homeownership education. The provider's content must be aligned with NIS or HUD standards. The education may be delivered in various formats (in-person, Internet, telephone, or a hybrid format). In lieu of homeownership education, the borrower may receive housing counseling.

The lender must confirm the course content is aligned with NIS or HUD standards and must retain a copy of the certificate of course completion in the loan file.

Housing Counseling

Housing counseling must be provided by a HUD-approved agency and meet HUD standards for the delivery of this service. The following requirements apply when counseling is obtained to satisfy the homeowner education requirement:

- If a borrower opts to work with a housing counselor, completion of housing counseling prior to closing will satisfy Fannie Mae's homeownership education requirement. The lender must retain a copy of the certificate of course completion in the loan file.
- HomeReady borrowers who complete housing counseling prior to the execution of the sales contract may be eligible for a loan-level price adjustment credit. The requirements of the counseling are described in the *Certificate of Completion of Housing Counseling* (Form 1017). This form must be signed by the counseling recipient (the borrower) and the HUD counselor if the counseling is obtained prior to the sales contract. The lender must retain a copy of the form in the loan file. See B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements, for additional information.

> **Note:** References to the use of a HUD-approved agency include affiliated agencies (as defined in the HUD Housing Counseling Program Handbook) participating in a HUD program through a HUD-approved intermediary or State Housing Finance Agency.

Completion of Form 1103

Lenders are required to present the *Supplemental Consumer Information Form* (Form 1103) to the borrower. The lender or borrower should complete the Homeownership Education and Housing Counseling section of the form for those transactions where homeownership education or housing counseling is required.

Additional Resources

Fannie Mae provides additional resources to lenders, borrowers, and nonprofit agencies in support of homeownership education and housing counseling on its website.

Summary of Homeownership Education and Housing Counseling Options

	Homeownership Education	Housing Counseling
Eligible Provider	• Any qualified third-party provider, independent of the lender; which can include a mortgage insurance company (without regard to whether they provide mortgage insurance coverage for the particular transaction) • Education course provided by a Community Seconds or other down payment assistance program provider, where the program requires homeownership education or counseling provided by a HUD-approved agency	HUD-approved agency
Course Content	Course content must align with NIS or HUD standards	Course content must align with HUD standards
Method of Delivery	Any method offered by an eligible provider	Any method offered per HUD standards
Date Required for Completion	Prior to loan closing	Prior to loan closing **Note:** There may be an additional incentive for HomeReady loans when housing counseling is completed prior to the execution of the sales contract.
Required Documentation	Certificate of course completion from the provider	If after execution of the sales contract but prior to closing, certificate of course completion from the provider. If prior to execution of the sales contract (HomeReady loans) Form 1017 signed by both the counseling recipient (borrower) and the HUD counselor.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2021-09	October 06, 2021
Announcement SEL-2019-08	October 02, 2019

Chapter B2-3, Property Eligibility

Introduction

This chapter includes information on property eligibility requirements.

B2-3-01, General Property Eligibility (06/01/2022)

Introduction

This topic contains information on Fannie Mae's property eligibility requirements, including:

- Overview
- Number of Units
- Property Location
- Property Requirements
- Acceptable Forms of Property Ownership
- Acceptable Dwelling Types
- Ineligible Properties
- Loan-Level Price Adjustments

Overview

Fannie Mae purchases or securitizes eligible mortgages in all markets across a broad geographic range. This topic describes Fannie Mae's property eligibility requirements. The requirements are designed to address a wide range of property types with varying characteristics; however, there may be instances when the unique nature of a particular property may require special consideration. In those cases, Fannie Mae encourages lenders to contact their Fannie Mae customer account team.

Number of Units

Fannie Mae purchases or securitizes first-lien mortgages that are secured by residential properties when the dwelling consists of one to four units. Under some circumstances, Fannie Mae limits the number of dwelling units for certain types of mortgages or transactions. For the maximum allowable LTV, CLTV, and HCLTV ratios and credit score requirements based on the property type and number of units, see the *Eligibility Matrix.*

> **Note**: A one-unit property with an accessory dwelling unit (ADU) is defined as a one-unit property and subject to all one-unit requirements, unless otherwise stated. See B2-3-04, Special Property Eligibility Considerations for additional information at ADUs.

Property Location

The security property must be located in

- the United States (including the District of Columbia),
- Puerto Rico,
- the U.S. Virgin Islands, or
- Guam.

Property Requirements

The mortgaged premises must be

- residential in nature as defined by the characteristics of the property and surrounding market area (see B4-1.3-03, Neighborhood Section of the Appraisal Report);
- secured by an interest in real property within the meaning of the Internal Revenue Code as such term is defined in 26 C.F.R. § 1.856-3;
- safe, sound, and structurally secure (see B4-1.3-06, Property Condition and Quality of Construction of the Improvements);
- adequately insured per Fannie Mae guidelines for property and flood insurance (see B7-3, Property and Flood Insurance);
- the highest and best use of the property as improved (or as proposed per plans and specifications), and the use of the property must be legal or legal non-conforming use (see B4-1.3-04, Site Section of the Appraisal Report);
- readily accessible by roads that meet local standards (see B4-1.3-04, Site Section of the Appraisal Report);

- served by utilities that meet community standards (see B4-1.3-04, Site Section of the Appraisal Report); and
- suitable for year-round use.

> **Note**: Certain aspects of the location of a property will require special consideration. For example, properties in resort areas that attract people for seasonal or vacation use are acceptable only if they are suitable for year-round use.

Acceptable Forms of Property Ownership

Title to the property must be held as fee simple, leasehold estate, or as a co-op form of ownership. (See B2-3-03, Special Property Eligibility and Underwriting Considerations: Leasehold Estates; and B4-2.3-04, Loan Eligibility for Co-op Share Loans, for additional information.)

Acceptable Dwelling Types

Dwelling units for security properties may be detached, attached, or semi-detached.

Properties may be located

- on an individual lot,
- in a condo project,
- in a co-op project, or
- in a planned unit development (PUD) or subdivision project.

Properties located in a condo, co-op, or PUD project must meet Fannie Mae's project standards requirements (see Chapter B4–2, Project Standards).

Ineligible Properties

Fannie Mae does not purchase or securitize mortgages on

- vacant land or land development properties;
- properties that are not readily accessible by roads that meet local standards;
- agricultural properties, such as farms or ranches;
- units in condo or co-op hotels (see B4-2.1-03, Ineligible Projects, for additional information;
- properties that are not secured by real estate such as, houseboats, boat slips, timeshares, and other forms of property that are not real estate (see B4-2.1-03, Ineligible Projects, for additional information;
- boarding houses;
- bed and breakfast properties; or
- properties that are not suitable for year-round occupancy regardless of location.

> Note: Group homes are not considered to be boarding houses. They are an eligible property type, including when leased to a business entity for use as a group home.

Loan-Level Price Adjustments

A Loan-Level Price Adjustment (LLPA) applies to certain property types, including multiple-unit properties and units in an attached condo project. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. For the current LLPAs, see the *Loan-Level Price Adjustment (LLPA) Matrix.*

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	**Issue Date**
Announcement SEL-2022-05	June 01, 2022
Announcement SEL-2022-01	February 02, 2022
Announcement SEL-2020-05	September 02, 2020
Announcement SEL-2018-09	December 04, 2018
Announcement SEL-2018-05	June 05, 2018

B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing (03/01/2023)

Introduction

This topic contains information on factory-built housing, including:

- Manufactured Home Property Eligibility Requirements
- MH Advantage Property Eligibility Requirements
- Modular, Prefabricated, Panelized, or Sectional Housing Eligibility

- Modular, Prefabricated, Panelized, or Sectional Housing Requirements
- Modular Construction Techniques on Multi-Unit Buildings

Manufactured Home Property Eligibility Requirements

Fannie Mae defines a “manufactured home” as any dwelling unit built on a permanent chassis that is attached to a permanent foundation system and evidenced by a HUD Data Plate and HUD Certification Label(s). For additional information, see B5-2-02, Manufactured Housing Loan Eligibility. (The terms “manufactured home” and “manufactured housing” are used interchangeably in this Guide).

The table below provides additional manufactured housing property eligibility requirements. For manufactured housing appraisal requirements, see B4-1.4-01, Factory-Built Housing: Manufactured Housing.

✓	**Requirements**
	The manufactured home must be built in compliance with • the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976, as amended and in force at the time the home is manufactured; and • additional requirements that appear in HUD regulations at 24 C.F.R. Part 3280. Compliance with these standards will be evidenced by the presence of both a HUD Data Plate and the HUD Certification Label(s). If the original or alternative documentation cannot be obtained for both the HUD Data Plate and the HUD Certification Label(s), the loan is not eligible for delivery to Fannie Mae.
	The HUD Data Plate is a paper document located on the interior of the subject property that contains, among other things, the manufacturer’s name and trade/model number. In addition to the data required by Fannie Mae, the Data Plate includes pertinent information about the unit, including a list of factory-installed equipment. The HUD Certification Label(s), sometimes referred to as a HUD “seal” or “tag,” is a metal plate located on the exterior of each section of the home. The *Manufactured Home Appraisal Report* (Form 1004C) must have photos of both the HUD Data Plate and the HUD Certification Label(s).
	As an alternative to the original HUD Certification Label(s), the lender may be able to obtain a verification letter with the same information contained on the HUD Certification Label(s) from the Institute for Building Technology and Safety (IBTS). A duplicate HUD Data Plate may be available from IBTS or by contacting the In-Plant Primary Inspection Agency (IPIA) or the manufacturer. (A list of IPIA offices is posted on HUD’s website.)
	The unit must not have been previously installed or occupied at any other site or location, except from the manufacturer or the dealer’s lot as a new unit.

✓	Requirements
	The manufactured home must be a one-unit dwelling that is legally classified as real property and cannot include an accessory dwelling unit. See B2-3-04, Special Property Eligibility Considerations for additional information.
	The towing hitch, wheels, and axles must be removed. The dwelling must assume the characteristics of site-built housing.
	The borrower must own the land on which the manufactured home is situated in fee simple, unless the manufactured home is located in a co-op or condo project. • For co-ops, both the land and dwelling must be owned by the co-op. • For condos, both the land and dwelling, including those located on leasehold estates, must be subject to the condo regime. Otherwise, mortgages secured by manufactured homes located on leasehold estates are not eligible.
	A manufactured home may be located on an individual lot or in a project development. A project review is generally not required for a loan secured by a multi-width manufactured home located in a PUD project. Lender approval, or in some cases Fannie Mae PERS approval, is required for condo and co-op projects that consist of multi-width manufactured homes. PERS approval is required for all condo, co-op, or PUD projects that consist of single-width manufactured homes. For further information about project review requirements, see Chapter B4-2, Project Standards.
	The manufactured home must be at least 12 feet wide and have a minimum of 400 square feet of gross living area. Except for MH Advantage properties, Fannie Mae does not specify other minimum requirements for size, roof pitch, or any other specific construction details for HUD-coded manufactured homes.
	Site preparation for delivery of the manufactured home must be completed.
	The manufactured home must be attached to a permanent foundation system in accordance with the manufacturer’s requirements for anchoring, support, stability, and maintenance. The foundation system must be appropriate for the soil conditions for the site and meet local and state codes.

✓	Requirements
	The manufactured home must be permanently connected to a septic tank or sewage system, and to other utilities in accordance with local and state requirements.
	If the property is not situated on a publicly dedicated and maintained street, then it must be situated on a street that is community owned and maintained, or privately owned and maintained. There must be adequate vehicular access and there must be an adequate and legally enforceable agreement for vehicular access and maintenance. See B4-1.3-04, Site Section of the Appraisal Report, for additional information about privately maintained streets.
	Mortgages secured by existing manufactured homes that have incomplete items, such as a partially completed addition or renovation, or defects or needed repairs that affect safety, soundness, or structural integrity, are not eligible for purchase until the necessary work is completed. Exceptions to the foregoing may be made only for minor items that do not affect the ability to obtain an occupancy permit — such as landscaping, a driveway, or a walkway – subject to all requirements and warranties for new or proposed construction provided in B4-1.2-05, Requirements for Verifying Completion and Postponed Improvements.
	Manufactured homes that have an addition or have had a structural modification are eligible under certain conditions. If the state in which the property is located requires inspection by a state agency to approve modifications to the property, then the lender is required to confirm that the property has met the requirement. However, if the state does not have this requirement, then the structural modification must be inspected and be deemed structurally sound by a third party who is regulated by the state and is qualified to make the determination. In all cases, the satisfactory inspection report must be retained in the mortgage loan file.

MH Advantage Property Eligibility Requirements

MH Advantage is manufactured housing that is built to meet construction, architectural design, and energy efficiency standards that are more consistent with site-built homes.

Examples of the physical characteristics for MH Advantage include

- specific architectural and aesthetic features such as distinctive roof treatments (eaves and higher pitch roofline), lower profile foundation, garages or carports, porches, and dormers;
- construction elements including durability features, such as durable siding materials; and
- energy efficiency standards (minimum energy ratings apply).

Fannie Mae has agreements with manufacturers of homes intended to qualify for MH Advantage based on specific design criteria. The agreement allows the manufacturers to apply an MH Advantage Sticker to multi-width manufactured homes that meet the design criteria. With the exception of the lender requirements outlined below, lenders will not be required to independently determine the property's eligibility for MH Advantage.

> **Note:** Single-width manufactured homes are not eligible for MH Advantage.

Lenders' and appraisers' responsibilities relating to MH Advantage loans are detailed below.

Requirements	
Lender	The lender must • ensure the property meets the MH Advantage requirements by reviewing appraisal photos evidencing the presence of the MH Advantage Sticker (placed in proximity to the HUD Data Plate), HUD Data Plate, and HUD Certification Label(s). • verify through appraisal, *Appraisal Update and/or Completion Report* (Form 1004D), completion alternatives, or photos 　◦ the presence of a driveway leading to the home (or to the garage or carport, if one is present). The driveway must consist of blacktop, pavers, bricks, concrete, cement, or gravel (gravel must have a minimum depth of four inches), and; 　◦ the presence of a sidewalk connecting either the driveway, or a detached garage or carport, to a door or attached porch of the home. The sidewalk must consist of blacktop, pavers, flagstone, bricks, concrete, or cement. • For new construction, the lender is responsible for compliance with Fannie Mae's standard appraisal requirements, specifically B4-1.2-05, Requirements for Verifying Completion and Postponed Improvements and, B4-1.4-01, Factory-Built Housing: Manufactured Housing for appraisals based on plans and specifications. This will ensure site improvements that are not attached to the home, such as detached garages, are complete.

Requirements	
Appraisal	Standard valuation requirements for manufactured homes apply, including: • B4-1.3-05, Improvements Section of the Appraisal Report • B4-1.3-10, Cost and Income Approach to Value • B4-1.4-01, Factory-Built Housing: Manufactured Housing The Manufactured Home Appraisal Report (1004C), *Appraisal Update and/or Completion Report* (Form 1004D), or completion alternatives must include photos of the MH Advantage Sticker, HUD Data Plate, HUD Certification Label(s), and the site showing all driveways, sidewalks, and detached structures located on the site.

Unless stated otherwise, loans secured by manufactured homes that meet the MH Advantage criteria are subject to the same requirements that apply to all manufactured homes. (References to “manufactured homes” or “manufactured housing” apply to MH Advantage unless an exception is stated.)

Note that loans secured by MH Advantage properties are afforded a number of flexibilities over standard manufactured housing, including higher LTV ratios, standard mortgage insurance, and reduced loan-level price adjustments. See the *Eligibility Matrix*, B7-1-02, Mortgage Insurance Coverage Requirements, and *Loan-Level Price Adjustment Matrix*, respectively, for additional information.

Modular, Prefabricated, Panelized, or Sectional Housing Eligibility

Modular Homes. Fannie Mae purchases loans secured by modular homes built in accordance with the International Residential Code administered by state agencies responsible for adopting and administering building code requirements for the state in which the modular home is installed.

Prefabricated, Panelized, and Sectional Homes. Loans secured by prefabricated, panelized, or sectional housing are eligible for purchase. These properties do not have to satisfy HUD’s Federal Manufactured Home Construction and Safety Standards or the International Residential Codes that are adopted and administered by the state in which the home is installed. The home must conform to local building codes in the area in which it will be located.

Modular, Prefabricated, Panelized, or Sectional Housing Requirements

Factory-built housing such as modular, prefabricated, panelized, or sectional housing is not considered manufactured housing and is eligible under the guidelines for one-unit properties. These types of properties must

- be built of the same quality of materials as and assume the characteristics of site-built housing,
- be legally classified as real property, and

- conform to all local building codes in the jurisdiction in which they are permanently located.

The purchase, conveyance, and financing (or refinancing) must be evidenced by a valid and enforceable first-lien mortgage or deed of trust that is recorded in the land records, and must represent a single real estate transaction under applicable state law. The lender is responsible for perfecting the real estate title and obtaining any needed title endorsements before selling the loan to Fannie Mae when a unit is titled as personal property similarly to manufactured homes.

All factory-built units must be permanently attached to a foundation that meets the standards for local building codes where the unit will be placed and in accordance with the recommendations prescribed by the unit's manufacturer (when applicable). If the unit had axles, wheels, tow hitch, or other hardware to facilitate ease of transportation to the site, the lender is responsible for ensuring that all such hardware is removed prior to selling the loan to Fannie Mae.

Fannie Mae affords modular, prefabricated, panelized, or sectional housing homes the same treatment as site-built housing. Therefore, Fannie Mae does not have minimum requirements for width, size, roof pitch, or any other specific construction details.

Modular Construction Techniques on Multi-Unit Buildings

Multi-unit buildings such as condos, co-ops, and townhomes may be constructed, in whole or in part, through the use of modular construction techniques. All buildings must conform to local building codes in the jurisdiction in which they are permanently located. Units in these buildings are provided the same treatment as units in multi-unit buildings constructed with site-built techniques.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2021-09	October 06, 2021
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2018-09	December 04, 2018
Announcement SEL-2018-08	October 02, 2018

Announcements	Issue Date
Announcement SEL-2018-05	June 05, 2018

B2-3-03, Special Property Eligibility and Underwriting Considerations: Leasehold Estates (08/07/2019)

Introduction

This topic contains information on leasehold estates, including:

- Leasehold Estates
- Lease Requirements
- Additional Eligibility Requirements
- Option to Purchase Fee Interest
- Exception to Leasehold Requirements for High LTV Refinance Loans

Leasehold Estates

Fannie Mae purchases or securitizes fixed-rate and adjustable-rate first-lien loans that are secured by properties on leasehold estates in areas in which this type of property ownership has received market acceptance. Mortgages secured by manufactured homes located on leasehold estates are not eligible unless the property is in a condo or PUD project approved by Fannie Mae’s Project Eligibility Review Service. The mortgage must be secured by the property improvements and the borrower’s leasehold interest in the land.

The leasehold estate and the improvements must

- constitute real property,
- be subject to the mortgage lien, and
- be insured by the lender’s title policy.

The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee. In the event the mortgage is secured by a sublease of a leasehold estate, the documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease.

For leasehold appraisal requirements, see B4-1.4-05, Leasehold Interests Appraisal Requirements.

Lease Requirements

The lender must ensure compliance with all requirements for leases associated with leasehold estate loans. In addition, the lender agrees that in accordance with A2-2-07, Life-of-Loan Representations and Warranties, any failure to comply at any time with the lease requirements in the following table is a breach of the life-of-loan representations and warranties if it impacts first-lien enforceability.

✓	**Lease and Lender Requirements**
	The term of the leasehold estate must run for at least five years beyond the maturity date of the loan, unless fee simple title will vest at an earlier date in the borrower.
	The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.
	The lease must provide for the borrower to retain voting rights in any homeowners' association.
	The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those they are paying on the improvements.
	The lease must be valid, in good standing, and in full force and effect in all respects.
	The lease must not include any default provisions that could give rise to forfeiture or termination of the lease, except for nonpayment of the lease rents.
	The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
	The loan must be serviced in compliance with the leasehold servicing requirements in the *Servicing Guide*.
	The lease must provide lenders with • the right to receive a minimum of 30 days' notice of any default by the borrower, and • the option to either cure the default or take over the borrower's rights under the lease.

Additional Eligibility Requirements

The following requirements must be met before a lender can deliver leasehold estate loans to Fannie Mae for purchase or securitization:

- All lease rents, other payments, or assessments that have become due must be paid.
- The borrower must not be in default under any other provision of the lease nor may such a default have been claimed by the lessor.

Option to Purchase Fee Interest

The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land. If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised. If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold. Both the lease and the option to purchase must be assignable.

The table below provides the requirements for establishing the purchase price of the land.

Status of Property Improvements	Purchase Price of Land
Already constructed at the time the lease is executed.	The initial purchase price should be established as the appraised value of the land on the date the lease is executed.
Already constructed at the time the lease is executed, and the lease is tied to an external index, such as the Consumer Price Index (CPI).	The initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed. The purchase price may be adjusted annually during the term of the lease to reflect the percentage increase or decrease in the index from the preceding year. Leases may be offered with or without a limitation on increases or decreases in the rent payments.

Status of Property Improvements	Purchase Price of Land
Will be constructed after the lease is executed.	The purchase price of the land should be the lower of the following: • the current appraised value of the land, or • the amount that results when the percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements. For example, assume that the total original appraised value for a property was $160,000, and the land alone was valued at $40,000 (thus representing 25% of the total appraised value). If the current appraised value is $225,000, $50,000 for land and $175,000 for improvements, the purchase price would be $50,000 (the current appraised value of the land, because it is less than 25% of $225,000). **Note**: If the lease is tied to an external index, the initial land value may not exceed 40% of the combined appraised value of the land and improvements.

Exception to Leasehold Requirements for High LTV Refinance Loans

High LTV refinance loans that are secured by leasehold estates are not subject to all of the requirements in this topic. The term of the leasehold must run for at least five years beyond the maturity date of the loan, unless fee simple title will vest at an earlier date in the borrower. The lender is not required to perform any additional review of the leasehold terms. See also B5-7-01, High LTV Refinance Loan and Borrower Eligibility.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2019-02	March 06, 2019
Announcement SEL-2018-05	June 05, 2018

B2-3-04, Special Property Eligibility Considerations (12/16/2020)

Introduction

This topic contains information on Fannie Mae's unique property eligibility requirements, including:

- Accessory Dwelling Units
- Multiple Parcels
- Mixed-Use Properties
- Hawaiian Lava Zones
- Properties with Solar Panels

Accessory Dwelling Units

An ADU is typically an additional living area independent of the primary dwelling that may have been added to, created within, or detached from a primary one-unit dwelling. The ADU must provide for living, sleeping, cooking, and bathroom facilities and be on the same parcel as the primary one-unit dwelling.

The following table describes the requirements for classifying an ADU.

✓	**Requirements**
	• Only one ADU is permitted on the parcel of the primary one-unit dwelling. • ADUs are not permitted with a two- to four-unit dwelling.
	• The ADU must ◦ be subordinate in size to the primary dwelling. ◦ have the following separate features from the primary dwelling: ■ means of ingress/egress, ■ kitchen, ■ sleeping area, ■ bathing area, and ■ bathroom facilities. • The ADU may, but is not required to, include access to the primary dwelling. However, it is not considered an ADU if it can only be accessed through the primary dwelling or the area is open to the primary dwelling with no expectation of privacy.

✓	Requirements
	• The kitchen must, at a minimum, contain the following: ∘ cabinets; ∘ a countertop; ∘ a sink with running water; and ∘ a stove or stove hookup (hotplates, microwaves, or toaster ovens are not acceptable stove substitutes). • An independent second kitchen by itself does not constitute an ADU. • The removal of a stove does not change the ADU classification.
	A borrower must qualify for the mortgage without considering any rental income from the ADU. (See B3-3.1-08, Rental Income for further information, and B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements for an exception for HomeReady mortgage loans.)

Construction of an ADU

The construction method of an ADU can be site- or factory-built, including modular, and single- or multi-width HUD Code manufactured homes that are legally classified as real property. If an ADU is present, the primary dwelling must be site-built or a modular home. If the ADU is a HUD Code manufactured home, the lender must verify the following:

- the property was built in compliance with the Federal Manufactured Home Construction and Safety Standards (established June 15, 1976, as amended and in force at the time the home was manufactured),
- it is attached to a permanent foundation system in accordance with the manufacturer's requirements for anchoring, support, stability, and maintenance,
- the foundation system must be appropriate for the soil conditions for the site and meet local and state codes,
- it is encumbered by the mortgage with the primary dwelling, and
- additional requirements that appear in HUD regulations in 24 C.F.R. Part 3280.

Compliance with these standards will be evidenced by photos of the HUD Data Plate and HUD Certification Label(s) in the appraisal. If the original or alternative documentation cannot be obtained for the Data Plate or HUD Certification Label(s), the loan is not eligible for delivery to Fannie Mae. See B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing, for more information.

Examples of ADUs

Examples of ADUs include, (but are not limited to):

- a living area over a garage,
- a living area in a basement,
- a small addition to the primary dwelling, or

- a manufactured home (legally classified as real property).

Whether a property is defined as a one-unit property with an accessory unit or a two- to four-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utility meter(s), a unique postal address, and whether the unit can be legally rented. The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal. See B4-1.3-05, Improvements Section of the Appraisal Report for additional ADU appraisal requirements.

Zoning for an ADU

Some ADUs may predate the adoption of the local zoning ordinance and therefore be classified as legal nonconforming. An ADU should always be considered legal if it is allowed under the current zoning code for the subject property.

If it is determined that the property contains an ADU that is not allowed under zoning (where an ADU is not allowed under any circumstance), the property is eligible under the following additional conditions:

- The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
- The appraisal requirements related to zoning for an ADU are met. See B4-1.3-05, Improvements Section of the Appraisal Report

Multiple Parcels

The table below provides the requirements when the security property consists of more than one parcel of real estate.

✓	**Multiple Parcels Requirements**
	Each parcel must be conveyed in its entirety.
	Parcels must be adjoined to the other, unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.
	Each parcel must have the same basic zoning (for example, residential, agricultural).

✓	Multiple Parcels Requirements
	The entire property may contain only one dwelling unit. Limited additional non-residential improvements, such as a garage, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable.
	The mortgage must be a valid first lien that covers each parcel.

Mixed-Use Properties

Fannie Mae purchases or securitizes mortgages that are secured by properties that have a business use in addition to their residential use, such as a property with space set aside for a day care facility, a beauty or barber shop, or a doctor's office.

The following special eligibility criteria must be met:

- The property must be a one-unit dwelling that the borrower occupies as a principal residence.
- The borrower must be both the owner and the operator of the business.
- The property must be primarily residential in nature.
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.

See B4-1.4-07, Mixed-Use Property Appraisal Requirements, for appraisal considerations.

Hawaiian Lava Zones

Fannie Mae will only purchase or securitize mortgage loans secured by properties that are located within lava zones 3 through 9 on the island of Hawaii. Properties in lava zones 1 and 2 are not eligible due to the increased risk of property destruction from lava flows within these areas.

Hawaiian lava flow maps and other information are available online at the U.S. Geological Survey Hawaiian Volcano Observatory website.

Properties with Solar Panels

The ownership and debt financing structures commonly found with solar panels are key to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate. Common ownership or financing structures include:

- borrower-owned panels,

- leasing agreements,
- separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage); or
- power purchase agreements.

Fannie Mae will purchase or securitize a mortgage loan on a property with solar panels. If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed and repaid in full, or are secured by the existing first mortgage), our standard requirements apply (for example, appraisal, insurance, and title).

Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible for delivery to Fannie Mae if the PACE loan is not paid in full prior to or at closing. For additional information, see B5-3.4-01, Property Assessed Clean Energy Loans.

Lenders are responsible for determining the ownership and any financing structure of the subject property's solar panels in order to properly underwrite the loan and maintain first lien position of the mortgage. When financing is involved, lenders may be able to make this determination by evaluating the borrower's credit report for solar-related debt and by asking the borrower for a copy of all related documentation for the loan. The lender must also review the title report to determine if the related debt is reflected in the land records associated with the subject property. If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless the lender obtains a UCC "personal property" search that confirms the solar panels are not claimed as collateral by any non-mortgage lender.

> **Note:** A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a "fixture filing" must be filed in the office identified in the relevant state's adopted version of the UCC.

Lenders are responsible for ensuring the appraiser has accurate information about the ownership structure of the solar panels and that the appraisal appropriately addresses any impact to the property's value. Separately financed solar panels must not contribute to the value of the property unless the related documents indicate the panels cannot be repossessed in the event of default on the associated financing. Any contributory value for owned or financed solar panels must comply with *Energy Efficiency Improvements* in B4-1.3-05, Improvements Section of the Appraisal Report.

The following table summarizes some of the specific underwriting criteria that must be applied depending on the details of any non-mortgage financing for the solar panels.

If the solar panels are...	Then the lender must...
Financed and collateralized -- the solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing* has been filed for the panels in the real estate records	• Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing*, related promissory note and related security agreement that reflect the terms of the secured loan; • Include the debt obligation in the DTI ratio calculation; • Provided that the panels cannot be repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property (based on standard appraisal requirements); and • Include the solar panels in other debt secured by the real estate in the CLTV ratio calculation because a UCC fixture filing* is of record in the land records. **Note:** If a UCC fixture filing* is in the land records as a priority senior to the mortgage loan, it must be subordinated.
Financed and collateralized -- the solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report	• Obtain and review documentation sufficient to confirm the terms of the secured loan (such as copies of the credit report, title report, any UCC financing statement, related promissory note or related security agreement); • Include the debt obligation in the DTI ratio calculation; • Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt; • Not include the panels in the LTV ratio calculation; and • Not include the debt in the other debt secured by the real estate in the CLTV ratio calculation since the security agreement or any UCC financing statement treat the panels as personal property not affixed to the home.

*A fixture filing is a UCC-1 financing statement authorized and made in accordance with the UCC adopted in the state in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contains both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office that mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If properly filed, the security interest in the described fixture has priority over the lien of a subsequently recorded mortgage.

If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar lease arrangement, the following requirements apply (whether to the original agreement or as subsequently amended).

✓	Lender Requirements for Properties with Solar Panels that are Leased or Covered by a Power Purchase Agreement
	The lender must obtain and review copies of the lease or power purchase agreement.
	The monthly lease payment must be included in the DTI ratio calculation unless the lease is structured to • provide delivery of a specific amount of energy at a fixed payment during a given period, and • have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period. Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.
	The value of the solar panels cannot be included in the appraised value of the property.
	The value of the solar panels must not be included in the LTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority. **Note:** A “precautionary” UCC filing is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it. When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power purchase agreement, and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title), as long as the loan is underwritten in accordance with this topic.
	The value of the solar panels must not be included in other debt secured by real estate in the CLTV ratio calculation because the documented lease or power purchase agreement status takes priority.

✓	Lender Requirements for Properties with Solar Panels that are Leased or Covered by a Power Purchase Agreement
	The property must maintain access to an alternate source of electric power that meets community standards.
	The lease or power purchase agreement must indicate that • any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home); • the owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and • in the event of foreclosure, the lender or assignee has the discretion to ∘ terminate the lease/agreement and require the third-party owner to remove the equipment; ∘ become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or ∘ enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.
	Any exceptions to coverage on the title insurance policy for recorded instruments relating to the solar panels must comply with B7-2-05, Title Exceptions and Impediments.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2020-05	September 02, 2020
Announcement SEL-2020-04	August 05, 2020

B2-3-05, Properties Affected by a Disaster (03/01/2023)

Introduction

This topic contains information on properties affected by a disaster, including:

- Overview
- Property Eligibility Requirements
- Value Acceptance Offers Following a Disaster
- Age of Documentation Requirements

Overview

The *Mortgage Selling and Servicing Contract* requires the lender to warrant for each loan it delivers to Fannie Mae that the property is not damaged by fire, wind, or other cause of loss and that there are no proceedings pending for the partial or total condemnation of the property. The lender also warrants that the loan conforms to all applicable requirements in the *Selling Guide*, including the requirement that the loan is an acceptable investment. Finally, the lender represents and warrants that it knows of nothing involving the loan or the property that can reasonably be expected to cause the loan to become delinquent or adversely affect the mortgage's value or marketability.

Property Eligibility Requirements

The lender must be able to make the warranties that are described above. Therefore, before delivery of a loan to Fannie Mae where the property may have been damaged by a disaster, the lender is expected to take prudent and reasonable actions to determine whether the condition of the property may have materially changed. The lender is responsible for determining if an inspection of the property and/or new appraisal is necessary to support this warranty. If a property is located in a condo or co-op project, both the condition of the unit and the condition of the building in which the unit is located must be assessed.

Lenders should use the following criteria when determining if the loan can be delivered to Fannie Mae:

- If the property has been damaged and the damage does not affect the safety, soundness, or structural integrity of the property and the repair items are covered by insurance, the lender may deliver the loan to Fannie Mae. In these circumstances, the lender must obtain documentation of the professional estimates of the repair costs and must ensure that sufficient funds are available for the borrower's benefit to guarantee the completion of the repairs.
- If the property was damaged and the damage is uninsured or the damage affects the safety, soundness, or structural integrity of the property, the property must be repaired before the loan is delivered to

Fannie Mae.

These requirements are necessary to support the lender's property representations and warranties, and apply through the end of the delivery process which is the whole loan purchase date or MBS settlement date. For DU loan casefiles with a value acceptance (appraisal waiver) or value acceptance + property data offer, the lender may exercise the offer as long as they have complied with the above requirements with regard to property condition and repairs. This applies in addition to the value acceptance requirements in B4-1.4-10, Value Acceptance (Appraisal Waiver) and B4-1.4-11, Value Acceptance + Property Data.

> **Note:** The above requirements do not apply to high LTV refinance loans. See B5-7-02, High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan for additional information. For delivered loan requirements, see the *Servicing Guide*, Chapter D1-3.

DU is updated periodically to incorporate ZIP codes included in FEMA-Declared Disaster Areas eligible for Individual Assistance. Fannie Mae may also add areas impacted by other disasters or emergencies at its discretion. New loan casefiles for properties in those ZIP codes are excluded from consideration for a new value acceptance (appraisal waiver) or value acceptance + property data offer.

Value Acceptance Offers Following a Disaster

After Fannie Mae has received an acceptable appraisal that was performed following a disaster, that appraisal can serve as the basis for a future value acceptance (appraisal waiver) or value acceptance + property data offer. Lenders may exercise these offers in accordance with the requirements in B4-1.4-10, Value Acceptance (Appraisal Waiver) and B4-1.4-11, Value Acceptance + Property Data.

Age of Documentation Requirements

When a loan is secured by a property located in a FEMA-Declared Disaster Area eligible for individual assistance, Fannie Mae provides additional flexibilities. The following requirements apply:

- The underwriting documentation, including credit reports and verifications of income and assets, must be dated no more than 180 days before the note date.
  - Lenders may disregard the message in the DU Underwriting Findings Report that indicates if the loan casefiles has not already closed, the credit report has expired.
- The appraisal must be dated no more than 180 days before the note date. Lenders must comply with the property eligibility requirements above.
- Lenders who wish to receive representation and warranty relief offered by the DU validation service must continue to comply with all conditions in the DU Underwriting Findings Report, including the close by date.
- Loans originated in accordance with the age of documentation flexibilities, must be delivered to Fannie Mae no later than two years from the date of the disaster declaration by FEMA.

See B5-4.2-02, Disaster-Related Limited Cash-Out Refinance Flexibilities for information related to certain flexibilities offered for a disaster related limited cash-out transaction.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2019-04	May 01, 2019
Announcement SEL-2018-09	December 04, 2018
Announcement SEL-2018-07	September 04, 2018
Announcement SEL-2018-04	May 01, 2018
Announcement SEL-2018-02	February 27, 2018

Subpart B3, Underwriting Borrowers

Introduction

This subpart contains borrower underwriting policies for conventional mortgage loans that are sold to Fannie Mae. Fannie Mae offers lenders two options for conducting a comprehensive risk assessment–automated underwriting through DU or manual underwriting. Both methods include an evaluation of the borrower's equity investment, credit history, liquid reserves, reliable and recurring income, and the cumulative effect that these and other risk factors have on mortgage loan performance.

Chapter B3-1, Manual Underwriting

Introduction

This chapter provides lenders with information on the comprehensive risk assessment approach to manual underwriting.

B3-1-01, Comprehensive Risk Assessment (12/16/2020)

Introduction

This topic contains information on the comprehensive risk assessment approach to underwriting, including:

- Overview
- Comprehensive Risk Assessment

Overview

Fannie Mae's underwriting policies include an evaluation of the borrower's (or spouse's to the extent required by applicable law) equity investment, credit history, liquid reserves, reliable and recurring income, and the cumulative effect that these and other risk factors have on mortgage loan performance. Fannie Mae's underwriting policies enable the lender to consider various scenarios in evaluating a borrower's willingness and capacity to repay the mortgage loan. The lender must confirm that information provided by the borrower during the loan application process is accurate and complete; include documentation in the loan file that supports the lender's assessment of the borrower's credit history, employment and income, assets, and other financial information used for qualifying; conduct a comprehensive risk assessment of each mortgage loan application; and render a decision to either approve or decline the mortgage loan application.

Fannie Mae offers lenders two options for conducting a comprehensive risk assessment–automated underwriting through DU or manual underwriting. Both methods include an evaluation of the borrower's equity investment, credit history, liquid reserves, reliable and recurring income, and the cumulative effect that these and other risk factors have on mortgage loan performance.

Lenders that choose to manually underwrite a mortgage application are expected to follow the comprehensive risk assessment approach. Under this approach, lenders evaluate certain key risk elements to assess the overall level of delinquency risk.

Lenders are fully responsible for:

- evaluating the delinquency risk of each loan;

- reviewing the credit report, as well as all other credit information, to determine that the credit report meets Fannie Mae's requirements, that the data evaluated was accurate, and that the borrower has the capacity to repay the mortgage loan;
- assessing the adequacy of the property as collateral for the mortgage requested;
- determining whether or not the loan meets Fannie Mae's eligibility requirements as fully described in this Guide;
- determining whether or not it is appropriate to deliver the mortgage loan to Fannie Mae; and
- fully documenting the assessment and the documentation on which the assessment was based.

Comprehensive Risk Assessment

Lenders must evaluate the overall level of serious delinquency risk that is present in each mortgage application by taking into consideration any layering of risk factors, the significance of risk factors, and the overall risks present in the mortgage application. The *Eligibility Matrix* provides a solid foundation for assessing the risk of a manually underwritten loan, and identifies the risk elements to evaluate for each transaction type, including:

- LTV, CLTV, and HCLTV ratios ("LTV ratios");
- credit score;
- occupancy;
- loan purpose;
- loan amortization type;
- property type and number of units;
- product type (if applicable);
- debt-to-income (DTI) ratio; and
- financial reserves.

For example, the purchase of a single unit principal residence must have LTV ratios no higher than 95%, a credit score of at least 680, and a DTI ratio no greater than 36%. If the DTI ratio is greater than 36% but less than 45%, a higher credit score is required. But if the LTV ratios are less than 75%, a credit score as low as 620 is permitted.

The lender's determination of the mortgage delinquency risk, the assessment of the adequacy of the property as security for the mortgage, the determination of whether the mortgage satisfies Fannie Mae's mortgage eligibility criteria, and the acceptability of the documentation in the mortgage file should all enter into the decision on whether to deliver the mortgage to Fannie Mae.

The lender must fully document the results of its comprehensive risk assessment and final underwriting decision, and ensure that the information used to reach its comprehensive risk assessment is valid, accurate, and substantiated.

For a more precise or definitive recommendation for determining whether to deliver a given mortgage to Fannie Mae, the lender should submit the mortgage application to DU. DU evaluates the probability of future serious delinquency and arrives at an underwriting recommendation by relying on a comprehensive examination of risk factors in a mortgage application. Furthermore, DU is the standard by which Fannie Mae assesses the delinquency risk on all mortgages sold to Fannie Mae.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcement	Issue Date
Announcement-SEL-2020-07	December 16, 2020

Chapter B3-2, Desktop Underwriter (DU)

Introduction

This chapter describes DU considerations and requirements.

B3-2-01, General Information on DU (05/05/2021)

Introduction

This topic contains general information on DU, including:

- Overview
- Underwriting with DU
- DU Underwriting Reports
- Loan Casefile Archival Policy
- DU Underwriting Recommendations
- General Requirements for Lenders

Overview

Fannie Mae's underwriting policies include an evaluation of the borrower's (or spouse's to the extent required by applicable law) equity investment, credit history, liquid reserves, reliable and recurring income, and the cumulative effect that these and other risk factors have on mortgage loan performance. Fannie Mae's underwriting policies enable the lender to consider various scenarios in evaluating a borrower's willingness and capacity to repay the mortgage loan. The lender must confirm that information provided by the borrower during the loan application process is accurate and complete; include documentation in the loan file that supports the lender's assessment of the borrower's credit history, employment and income, assets, and other financial information used for qualifying; conduct a comprehensive risk assessment of each mortgage loan application; and render a decision to either approve or decline the mortgage loan application.

Fannie Mae offers lenders two options for conducting a comprehensive risk assessment–automated underwriting through DU or manual underwriting. Both methods include an evaluation of the borrower's equity investment, credit history, liquid reserves, reliable and recurring income, and the cumulative effect that these and other risk factors have on mortgage loan performance.

DU evaluates mortgage delinquency risk and arrives at an underwriting recommendation by relying on a comprehensive examination of the primary and contributory risk factors in a mortgage application. (See B3-2-03, Risk Factors Evaluated by DU) It analyzes the information in the loan casefile to reach an overall credit risk assessment to determine eligibility for delivery to Fannie Mae.

No one factor determines a borrower's ability or willingness to make their mortgage payments. DU identifies low-risk factors that can offset high-risk factors. When several high-risk factors are present in a loan casefile without sufficient offsets, the likelihood of serious delinquency increases.

DU conducts its analysis uniformly, and without regard to race, gender, or other prohibited factors. DU uses validated, statistically significant variables that have been shown to be predictive of mortgage delinquency across all groups.

DU does not evaluate a loan's compliance with federal and state laws and regulations including, without limitation, a loan's potential status as a qualified mortgage under applicable laws and regulations. Lenders bear sole responsibility for complying with applicable laws and regulations, and these compliance obligations may not be imposed upon or shared by Fannie Mae.

Underwriting with DU

Lenders must enter loan data (including data from the Form 1003) in their loan origination system or in the DU user interface before submitting for underwriting. A credit report must also be obtained. Loans may be submitted to DU before or after the closing of the mortgage loan; however, the first submission to DU for underwriting purposes must occur before closing of the mortgage loan.

When the mortgage loan or borrower information changes and it no longer matches the information used when the loan casefile was last underwritten with DU, the lender must update the data and resubmit the loan casefile to DU. Exceptions are specified in B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report.

When the loan casefile is resubmitted to DU after closing and prior to delivery to Fannie Mae, the lender is responsible for ensuring that:

- all information provided in the final submission to DU matches the terms of the closed loan;
- the loan complies with the requirements specified in A2-2-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU;

- the loan delivery data matches both the closed loan and the final data submitted to DU; and
- the loan casefile receives an eligible recommendation from DU on the final submission.

The lender may request a new credit report after closing when the loan casefile is resubmitted and, as with all loan casefiles, must comply with the Fair Credit Reporting Act with regard to the purpose and nature of the inquiry. If the new credit report contains information that is different than the information used to prepare the final loan application that was signed by the borrower at closing, the loan application must be updated. (Borrower signature(s) are not required due to the update occurring post-closing.) The lender must include both the final signed and the updated unsigned loan applications in the loan file.

> **Note:** The credit report must meet the allowable age of documents as of the note date. If the credit report expired prior to the note date and the loan casefile is being resubmitted to DU, a new credit report must be requested.

In certain instances, the lender may not be able to access the original DU loan casefile for resubmission purposes. Lenders may create a new loan casefile in DU after closing to ensure that all information in the final DU submission matches the terms of the closed loan, provided all of the following conditions are met:

- the above lender responsibilities are met, including the updating of the final loan application, if applicable;
- the loan has not yet been delivered to Fannie Mae;
- the loan has the same information (for example, the same borrower(s) and property) as had previously been underwritten through DU prior to closing using another loan casefile, and that loan casefile received an eligible recommendation from DU;
- the lender retains the DU Underwriting Findings Report from the original loan casefile ID in the loan file;
- the DU submission using the new loan casefile occurs no more than 60 days after closing (based on the note date) or 12 months after initial closing for single-closing construction-to-permanent loans (described in B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions); and
- as stated above, when a new credit report is requested, the lender complies with the Fair Credit Reporting Act.

If the resubmission to DU results in an “ineligible” recommendation, the mortgage loan may not be delivered to Fannie Mae.

> **Note:** If the quality control function is performed before delivery, the above requirements apply. If quality control is performed after delivery, see D1-3-03, Lender Post-Closing Quality Control Review of Data Integrity .

DU Underwriting Reports

DU issues two types of reports:

- The DU Underwriting Findings report summarizes the overall underwriting recommendation and lists the steps necessary for the lender to complete the processing of the loan file. This is typically the first report viewed by an underwriter or a loan officer after the loan casefile has been underwritten with DU. This report is described in B3-2-11, DU Underwriting Findings Report.

- The Underwriting Analysis report contains much of the same information requested on the *Uniform Underwriting and Transmittal Summary* (Form 1008).

Each time a loan casefile is resubmitted to DU, the information in these reports is updated with information from the most recent submission. The date and time of each submission are recorded on each report, along with the unique loan casefile ID.

Loan Casefile Archival Policy

DU loan casefiles are archived and no longer retained in DU from the earlier of

- 270 days from the date on which the loan casefile was last updated, or
- 540 days from the date on which the loan casefile was created.

These time frames are intended to ensure that the total volume of loans in the system is at a manageable level, reducing the time required by DU to search for and retrieve loan casefiles

After a loan casefile is archived from DU, it cannot be restored. If a loan casefile that has been archived must be re-underwritten, a new loan casefile must be created and submitted to DU. The loan casefile will be subject to the policies in effect for the current version of DU. Fannie Mae is not responsible for retaining loan casefiles for the lender.

DU Underwriting Recommendations

The following topics describe the underwriting recommendations returned by DU:

- B3-2-05, Approve/Eligible Recommendations.
- B3-2-06, Approve/Ineligible Recommendations.
- B3-2-07, Refer with Caution Recommendations.
- B3-2-08, Out of Scope Recommendations.

General Requirements for Lenders

When underwriting loans with DU, the lender must:

- employ prudent underwriting judgment in assessing whether a loan casefile should be approved and delivered to Fannie Mae;
- confirm the accuracy of the data it submits, making sure that it did not fail to submit any data that might have affected the DU recommendation had it been known;
- ensure that the loan complies with all of the verification messages and approval conditions specified in the DU Underwriting Findings report;
- apply due diligence when reviewing the documentation in the loan file;

- review the credit report to confirm that the data that DU evaluated with respect to the borrower’s credit history was accurate and complete;
- determine if there is any potentially derogatory or contradictory information that is not part of the data analyzed by DU; and
- take action when erroneous data in the credit report or contradictory or derogatory information in the loan file would justify additional investigation or would provide grounds for a decision that is different from the recommendation that DU delivered.

For example, if a foreclosure was reported in the credit report but was not detected by DU (that is, it was not referenced in any verification messages), the lender must determine if the loan complies with the applicable guidelines (see B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit).

See the Desktop Underwriter & Desktop Originator Learning Center for a number of helpful resources.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements and Release Notes	Issue Date
Announcement SEL-2021-04	May 05, 2021
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2018-06	August 07, 2018

B3-2-02, DU Validation Service (08/03/2022)

Introduction

This topic contains information on the DU validation service, including:

- General Information
- Authorized Vendors and Verification Reports
- Lender Requirements
- Validation Results
- Income Validation
- Employment Validation

- Asset Validation

General Information

The DU validation service offers lenders an opportunity to deliver loans with more certainty. Certain components of the loan file – income, employment, and assets – are eligible for validation by DU using electronic verification reports obtained from vendors. When a component of the loan is validated by DU, the loan may be eligible for representation and warranty enforcement relief related to that component. Different lender quality control and documentation requirements may also apply. See the following for additional information:

- A2-2-01, Representations and Warranties Overview,
- A2-2-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU,
- A3-4-02, Data Quality and Integrity,
- B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns,
- B3-3.1-01, General Income Information,
- B3-3.1-02, Standards for Employment Documentation,
- B3-3.1-06, Requirements and Uses of IRS IVES Request for Transcript of Tax Return Form 4506-C,
- B3-3.1-07, Verbal Verification of Employment,
- B3-3.1-09, Other Sources of Income,
- B3-3.5-01, Income and Employment Documentation for DU,
- B3-4.2-01, Verification of Deposits and Assets,
- B3-4.2-02, Depository Accounts,
- B3-4.4-02, Requirements for Certain Assets in DU,
- D1-2-01, Lender Prefunding Quality Control Review Process, and
- D1-3-02, Lender Post-Closing Quality Control Review of Approval Conditions, Underwriting Decisions, and Documentation.

The validation service is an optional service available only for conventional loans underwritten through DU. Lenders are not required to participate in the DU validation service in order for a loan to be underwritten through DU.

Authorized Vendors and Verification Reports

A lender may obtain a verification report directly from a “report supplier” or from a “report distributor” as described below:

- Report suppliers have entered into an agreement with Fannie Mae to participate in the DU validation service. Report suppliers generate the report and send the report data electronically to the DU validation service. This report reflects the report supplier’s name and/or logo.

- Report distributors have not entered into an agreement with Fannie Mae, but have an agreement with an eligible report supplier. The report supplier (not the distributor) sends the report data electronically to the DU validation service. The verification report reflects both the report distributor's name and the name and/or logo of the applicable report supplier.

The DU Validation Service Verification Report Vendors list provides a listing of authorized report suppliers and report distributors and is available on Fannie Mae's website.

Lender Requirements

No special approval is required from Fannie Mae to use this service; however, the lender must "opt-in" to participate in each component of the DU validation service (income and employment, and assets). When a lender opts in, all future loans that are submitted to DU will automatically be assessed through the service for that component.

In order to participate in the DU validation service, the lender must

- have a relationship with, and have entered into a contract for the services provided by, a vendor(s) –either a report supplier or a report distributor – that is authorized to obtain a verification report;
- have an agreement with a vendor(s) that allows for the report supplier to share the information contained within the verification report (obtained by the lender) with Fannie Mae electronically for use by the DU validation service; and
- establish controls to manage and monitor the vendors in accordance with its own regulatory requirements.

For loans assessed by the DU validation service, the lender must

- obtain borrower authorization to receive the information from the vendor;
- confirm that the verification report matches the borrower;
- ensure information entered by the lender in DU is properly documented;
- investigate and resolve any conflicting or contradictory information;
- retain a copy of all verification reports in the loan file, in addition to any other documentation required by DU; and
- ensure that the most current version of the verification report is used by the DU validation service. If the lender obtains an updated verification report, the lender must resubmit the loan to DU and receive a message that the component has been validated in order for the representation and warranty enforcement relief to apply.

Validation Results

When a component of the loan file is assessed by the DU validation service, three results are possible: validated, not validated, or unable to be validated. DU will issue a message providing the validation results.

Validated

DU has determined that the information provided on the verification report supports the information entered into DU for the component being validated.

The DU message(s) will indicate that the verification report is acceptable documentation to support the component that has been validated.

Not Validated

DU has determined that the information provided on the verification report does not fully support the information entered into DU for the component of the loan file eligible for validation.

The DU message(s) will indicate what documentation, in addition to the verification report, is required.

Unable to Validate

DU is unable to validate the information entered into DU for the component eligible for validation. This could be due to DU's inability to access the verification report data, or insufficient data in the report.

The DU message(s) will indicate what documentation is required.

> **Note**: Regardless of the validation result, DU will continue to use the information provided by the lender in determining the DU underwriting recommendation. The results of the validation service do not override, impact, or alter any information submitted by the lender.

Income Validation

The following table lists the income types that can be validated, and the documentation that DU will require, which may be different than the standard documentation required in this Guide.

> **Note:** Military income is not eligible for income validation by DU.

Eligible Income Types	Eligible Verification Report
Base	Employment and Income Verification Report
Bonus	
Overtime	
Commission	
Retirement (pension and annuities)	Tax Return Transcript (Taxpayer Tax Return Summary Report) **Note**: Additional documentation may be required depending on the type of retirement income.

Eligible Income Types	Eligible Verification Report
Social Security (retirement, disability, supplemental, survivor benefits)	Tax Return Transcript (Taxpayer Tax Return Summary Report) **Note**: Additional documentation may be required depending on the type of Social Security income.
Self-employed (IRS Form 1040 Schedules C or C-EZ for sole proprietorships only)	Tax Return Transcript (Taxpayer Tax Return Summary Report)

Income—Additional Information

The following additional information applies to income validated by DU:

- The vendor must obtain income information using data obtained from the report supplier's existing database of employer-provided information.
- All income shown on the income verification report must be reflected in U.S. dollars.
- When DU validates income, the lender is not required to determine if the borrower is employed by a family member or interested parties to the property sale or purchase.
- When DU validates income, the lender must continue to obtain employment verification as described in B3-3.1-07, Verbal Verification of Employment. The verification report may contain sufficient information to satisfy this requirement. See Employment—Additional Information below.
- The lender must review the verification report, and investigate and resolve any conflicting or contradictory information.

Age of Income Document Requirements

Employment and Income Verification Reports: The date of the report must comply with Fannie Mae's standard age of credit document requirements as outlined in B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns.

Tax Return Transcripts: In order to ensure that the income validation is completed using the most recent tax transcripts, the following will be used to determine if the transcript contains the most recent tax return information. Lenders are not required to comply with the age of credit documents as outlined in B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns, when DU issues the message that income has been validated.

- For loan casefiles created on or before April 30, the most recent tax transcript must be provided. The most recent tax transcript would be for the prior year (current year minus 1). If the prior year tax return has not yet been filed or the transcript is not yet available, the most recent tax transcript will be the current year minus 2.
- For loan casefiles created after April 30, the most recent year tax transcript must be provided for validation to be completed. The most recent tax transcript will be for the prior year (current year minus 1).

Employment Validation

The following table describes the employment that can be validated and the documentation that DU will require, which may be different than the standard documentation required in this Guide.

Note: Military employment is not eligible for employment validation by DU.

Eligible Employment	Eligible Verification Report
Employment related to the following income types: • Base • Bonus • Overtime • Commission income	Employment and Income Verification Report or Employment Verification Report

Employment—Additional Information

The following additional information applies to employment validated by DU:

- The vendor must obtain employment information using data obtained from the report supplier's existing database of employer-provided information.
- Income and employment are assessed independently; however, the results of the employment validation may impact income validation (for example, if employment is not able to be validated, the associated income will not be validated).
- When employment is validated by DU, the validation satisfies the requirement for verbal verification of employment described in B3-3.1-07, Verbal Verification of Employment. Lenders must comply with all DU messages, including ensuring the loan closes by the "Close By Date" stated in the DU employment validation message.
- The lender must review the verification report, including any Employer Disclaimer information, and investigate and resolve any conflicting or contradictory information.

Asset Validation

The following table lists the asset types that can be validated and the documentation that DU will require, which may be different than the standard documentation required in this Guide.

Eligible Asset Types	Eligible Verification Report
Total funds to be verified as required by DU, based on assets held in the following accounts: Checking Savings Certificates of Deposit Stocks Money Market Mutual funds Retirement	Asset Verification Report **Note:** Additional documentation may be required depending on the type of asset account and the assessment conducted by DU for validation purposes.

Asset—Additional Information

The following additional information applies to asset validation:

- All assets shown on the asset verification report must be in U.S. dollars and held in a U.S. or state regulated financial institution.
- The account statements obtained from the vendor must cover the most recent:
  - 30 days of account activity for refinance transactions
  - 60 days of account activity for purchase transactions
  - The most recent quarter, if account information is reported on a quarterly basis
- The lender must review the verification report and investigate and resolve any conflicting or contradictory information. The lender must also confirm that the borrower is listed as an account holder for each asset account.
- The DU validation service automates the assessment of large deposits on purchase transactions required in B3-4.2-02, Depository Accounts. When a large deposit needs to be documented, DU will issue a message specifying the amount of the large deposit, as well as the institution name and account number of the account that includes the large deposit. If no message is issued by DU, then no documentation of any large deposit appearing on the asset report is required when assets have been validated.
- When the DU validation service validates assets on transactions with gift funds, the lender must ensure that the gift funds that appear as deposits on the asset verification report (if any) meet the requirements in B3-4.3-04, Personal Gifts.
- If the actual amount of funds required to complete the transaction is greater than the Funds Required to Close specified in DU, the lender must document liquid assets to cover the additional amount. See B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report for additional details on whether the loan must be resubmitted to DU.
- For self-employed borrowers, if an eligible asset account is reflected as a business account on the verification report, the lender must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. If the lender determines the withdrawal would have a negative impact on the business, the lender must remove the assets from the online loan application, obtain an updated verification report that excludes the business account, and

resubmit the loan to DU.

- When retirement assets are entered in DU, DU issues a message requiring the lender to ensure that withdrawals are permitted, and that withdrawals are not limited to those completed in connection with the borrower's employment termination, retirement, or death. If any of these conditions are present, the lender must remove the retirement account assets from the online loan application, obtain an updated verification report that excludes the retirement account, and resubmit the loan to DU.

> **Note:** If the lender would like to use the asset verification report to supplement the credit risk assessment in DU, see *Rent Payment History* in B3-2-03, Risk Factors Evaluated by DU for additional information.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-07	August 03, 2022
Announcement SEL-2022-04	May 04, 2022
Announcement SEL-2021-08	September 01, 2021
Announcement SEL-2021-03	April 07, 2021
Announcement SEL-2020-06	October 07, 2020
Announcement SEL-2020-03	June 03, 2020
Announcement SEL-2019-06	July 03, 2019
Announcement SEL-2018-09	December 04, 2018

B3-2-03, Risk Factors Evaluated by DU (02/01/2023)

Introduction

This topic contains information on the risk factors evaluated by DU, including:

Risk Factors Evaluated by DU

DU considers the following characteristics in the credit report to assess the creditworthiness of borrowers who have traditional credit histories: credit history, delinquent accounts, installment accounts, revolving credit utilization, public records, foreclosures, collection accounts, and inquiries.

The non-credit risk factors evaluated by DU include: the borrower's equity and LTV ratio, liquid reserves, loan purpose, loan term, loan amortization type, occupancy type, debt-to-income ratio, housing expense ratio, property type, co-borrowers, and variable income.

DU performs a comprehensive evaluation of these factors, weighing each factor based on the amount of risk it represents and its importance to the recommendation. DU analyzes the results of this evaluation along with the evaluation of the borrower's credit profile to arrive at the underwriting recommendation for the loan casefile.

More information on these risk factors is provided below. Also see below for information about the risk factors DU considers when evaluating loans where no borrower has a credit score.

Credit History

A borrower's credit history is an account of how well the borrower has handled credit, both now and in the past. An older, established history—even though the accounts may have zero balances—will have a more positive impact on the borrower's credit profile than newly established accounts.

A borrower who has a relatively new credit history (a few recently opened accounts) is not automatically considered a high credit risk. Successfully managing newly established accounts, including making payments as agreed, signifies lower risk.

Delinquent Accounts

Payment history is a significant factor in the evaluation of the borrower's credit. DU considers the severity of the delinquencies (30, 60, 90, or more days late), the length of time since the delinquencies, and the number and type of accounts that were not paid as agreed.

A payment history that includes bills that are 30 days or more past-due, or a history of paying bills late as evidenced by a number of accounts with late payments, will have a negative impact on the borrower's credit profile. The amount of time that has elapsed since an account was delinquent is an important factor included in the evaluation of the payment history. For example, a 30-day late payment that is less than three months old indicates a higher risk than a 30-day late payment that occurred several years ago.

Installment Loans

DU evaluates how well a borrower manages debt for all types of installment loans such as mortgage, auto, unsecured, and student loans. Research has shown that borrowers with no active installment accounts represent a higher risk than borrowers who have active installment accounts.

Rent Payment History

For certain first-time homebuyers who have a credit score, the lender may use a 12-month third-party asset verification report to have their rent payment history considered in DU. When DU logic can identify rent payments in the asset verification report, it will use the rent payment history to positively supplement the credit risk assessment.

The following requirements apply when using rent payment history in DU:

- At least one borrower must
    - be a first-time homebuyer purchasing a principal residence,
    - have a credit score (nontraditional credit is not permitted), and
    - have been renting for at least 12 months with a monthly rent payment of at least $300.
- For DU to be able to identify rent payments, the lender must
    - enter the monthly rent paid by the borrower in the online loan application,
    - obtain an asset verification report with 12 months of bank statement data through an authorized DU validation service asset verification report vendor, and

    - confirm the borrower is an account holder and that the account provided in the asset verification report is the one from which the borrower pays rent.
- At the time of loan origination, the originating lender must have access to the full asset verification report containing the data covering the period of time provided to DU for assessment.

When an asset verification report is used for both rent history and asset documentation, including asset validation through the DU validation service, only the most recent 60 days of account activity must be reviewed in accordance with the requirements in B3-4.2-02, Depository Accounts and B3-2-02, DU Validation Service, and retained in the loan file. For additional details on record retention, see A2-4.1-01, Establishing Loan Files.

Revolving Credit Utilization

The establishment, use, and amount of revolving credit a borrower has available are important. Trended credit data is used to evaluate the borrower's ability to manage revolving accounts. A borrower who uses revolving accounts conservatively, meaning low revolving credit utilization or regular payoff of revolving balance, is considered lower risk. A borrower whose revolving credit utilization is high or who has low available revolving credit is considered higher risk.

Public Records, Foreclosures, and Collection Accounts

A credit history that includes any significant derogatory credit event is considered high risk. Significant derogatory credit events include bankruptcy filings, foreclosures, deeds-in-lieu of foreclosure, preforeclosure sales, mortgage charge-offs, or accounts that have been turned over to a collection agency.

The more recent such events occurred, the more adverse the impact is on the credit profile. Although most public record information is retained in the credit history for seven years (ten years for bankruptcies), as time passes, it does become less significant to DU's credit evaluation.

> **Note:** Collection accounts reported as medical collections are not used in the DU risk assessment.

Inquiries

DU evaluates inquiries made within the most recent 12 months of the credit report date. Research has shown that a high number of inquiries can indicate a higher degree of risk. However, multiple inquiries made by different mortgage lenders or different auto loan creditors within the same time frame is not viewed by DU as multiple inquiries (these types of inquiries generally reflect borrowers shopping for favorable rates or terms). A borrower who has frequently applied for, or obtained, new or additional credit represents a higher risk.

Borrower's Equity and LTV Ratio

The amount of equity in the property is a very important component of the risk analysis. Research has shown that a borrower who makes a large down payment or who has considerable equity in their property is less likely to become delinquent on a mortgage loan than a borrower who makes a small down payment or has a small amount of equity in the property. In other words, the more equity a borrower has in the property, the lower the risk associated with the borrower's mortgage loan.

DU may use a low LTV ratio to offset other risks that it may identify in the loan application.

Liquid Reserves

Liquid reserves are those financial assets that are available to a borrower after a loan closes. Reserves are calculated as the total amount of liquid assets remaining after the loan transaction closes divided by the qualifying payment amount.

DU considers higher amounts of liquid reserves as more favorable than lower amounts or no reserves. Research has shown that mortgages to borrowers with higher amounts of liquid reserves tend to have lower delinquency rates. As with a low LTV ratio, DU may consider high amounts of reserves as an offset for other risks that it may identify in the loan application.

Loan Purpose

There is a certain level of risk associated with every transaction, whether it is a purchase or a refinance. Purchase transactions represent less risk than refinance transactions. When evaluating refinance transactions, a limited cash-out refinance transaction represents less risk than a cash-out refinance transaction.

Loan Term

Research has shown that mortgages to borrowers who choose to finance their mortgages over shorter terms and build up equity in their properties faster generally tend to perform better than mortgages with longer amortization periods.

Loan Amortization Type

Research has shown that there is a difference in loan performance based on the manner in which the mortgage amortizes. Fixed-rate mortgages will be viewed as representing less risk than adjustable-rate mortgages.

Occupancy Type

Performance statistics on investor loans are notably worse than those of owner-occupied or second home loans. Owner-occupied transactions represent the least risk, followed by second home transactions, and investment property transactions having the highest risk level.

Debt-to-Income Ratio

In DU's evaluation, generally, the lower the borrower's debt-to-income ratio (DTI ratio), the lower the associated risk. As the ratio increases, the level of risk also tends to increase; and a high ratio will have the greatest adverse impact on the recommendation when there are also other high-risk factors present.

The composition of the borrower's debt is also taken into consideration. Borrowers whose revolving debt makes up a smaller percentage of their monthly expense have been shown to represent less risk than those whose revolving debt makes up a large percentage of their monthly expenses. Also, borrowers with student loan debt have been shown to represent less risk than those with only revolving debt.

Housing Expense Ratio

Borrowers with lower housing expense ratios are considered lower risk, while those with higher housing expense ratios are considered higher risk. Research has shown that borrowers whose total monthly expenses are composed primarily of their housing expense may find it more difficult to pay this expense when experiencing an event that would cause financial distress, such as the loss of a job.

Property Type

Another important factor that DU considers in the risk analysis is the collateral or property type. DU differentiates the risk based on the number of units, and in some cases the property type (e.g., manufactured home).

The level of risk associated with each property type is as follows, starting with those property types representing the least amount of risk:

- one-unit properties;
- condo and co-op properties;
- two-, three-, and four-unit properties;
- manufactured homes.

Co-borrowers

DU considers the number of borrowers (who have traditional credit) on a mortgage application in its evaluation because, generally, the presence of more than one borrower helps to reduce risk. Research has shown that mortgages that have more than one borrower tend to have a lower delinquency rate than mortgages with one borrower. However, additional borrowers tend to reduce risk only when they have good credit histories.

Variable Income

DU evaluates the composition of borrower income. As variable income (bonus, overtime, commission, and other income) can differ from year-to-year, borrowers whose total annual income is made up of a higher percentage of variable income represents an increase in risk. Note that other income is based on entry in Form 1003 of "Other" gross monthly income type in current employment, and "Other" in income from other sources.

Risk Factors for Loan Casefiles Where No Borrower Has a Credit Score

DU will consider the following factors when evaluating the overall credit risk of a loan casefile when no borrower has a credit score:

- borrower's equity and LTV ratio,
- liquid reserves,
- debt-to-income ratio, and
- property type.

See B3-5.4-01, Eligibility Requirements for Loans with Nontraditional Credit, and B3-5.4-02, Number and Types of Nontraditional Credit References, for additional requirements that apply to loan casefiles without credit scores.

> **Note**: If a loan casefile does not receive an Approve recommendation or if the borrower is unable to meet the DU requirements related to the nontraditional credit references required, the lender may manually underwrite and document the loan according to the nontraditional credit guidelines described in this Guide.

Cash Flow Assessment for Loan Casefiles Where No Borrower Has a Credit Score

For certain loan casefiles where no borrower has a credit score, DU can conduct a cash flow assessment when the lender provides a 12-month third-party asset verification report for the borrower. DU will assess the borrower's cash flow management history to determine whether it can be used to positively supplement the credit risk assessment.

To be eligible for the cash flow assessment in DU

- The lender must obtain an asset verification report with 12 months of bank data through an authorized DU validation service asset verification report vendor and confirm the borrower is an account holder.
- At the time of loan origination, the originating lender must have access to the full asset verification report containing the data covering the timeframe provided to DU for the cash flow assessment.

When DU conducts a cash flow assessment and provides an Approve/Eligible recommendation, the 12-month asset verification report may be used to satisfy the nontraditional credit history requirements for all borrowers as outlined in B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History.

When an asset verification report is used for both the cash flow assessment and asset documentation, including asset validation through the DU validation service, only the most recent 30 or 60 days of account activity must be reviewed in accordance with the requirements in B3-4.2-02, Depository Accounts, and B3-2-02, DU Validation Service, and retained in the loan file. For additional details on record retention, see A2-4.1-01, Establishing Loan Files.

> Note: If a 12-month asset verification report is not obtained, at least two nontraditional credit references are required for each borrower. See B3-5.4-01, Eligibility Requirements for Loans with Nontraditional Credit.

Recent Related Announcements

The table below provides reference to recently issued Announcements that are related to this topic.

Announcements and Release Notes	Issue Date
Announcement SEL-2023-01	February 01, 2023
Announcement SEL-2022-09	October 05, 2022
Announcement SEL-2021-08	September 01, 2021
Announcement SEL-2021-07	August 04, 2021
Announcement SEL-2021-02	March 03, 2021
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2018-09	December 04, 2018

B3-2-04, DU Documentation Requirements (03/31/2015)

Introduction

This topic contains information on DU documentation, including:

- Required Documentation for the Permanent Loan File
- DU Documentation Requirements
- Transferring Documentation Flexibilities to Another Lender

Required Documentation for the Permanent Loan File

The following documents must be maintained in the permanent loan file:

- the complete loan application (the full Form 1003),
- the final DU Underwriting Findings report, and
- the final Underwriting Analysis report produced by DU.

Lenders are not required to prepare a *Uniform Underwriting and Transmittal Summary* (Form 1008) for loans underwritten with DU and subsequently delivered to Fannie Mae.

DU Documentation Requirements

DU indicates the minimum verification documentation requirements necessary for the lender to process the loan application. While DU may offer a reduced level of documentation, a more comprehensive level of documentation is always acceptable and in some instances should be required by lenders when circumstances in the loan file warrant it.

DU documentation requirements are based on the specific risk factors present in each loan file. The requirements appear in the DU Underwriting Findings report in the section titled Verification Messages/Approval Conditions. DU indicates the minimum documentation requirements for income and asset verification, credit-related documentation, and level of property fieldwork.

Transferring Documentation Flexibilities to Another Lender

The documentation flexibilities that apply to loan casefiles underwritten with DU are transferable to any lender that subsequently delivers the mortgage to, or services it for, Fannie Mae.

The terms of the closed mortgage and the information in the underwriting file must match the data on which DU based its recommendation. For additional information, see:

- B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report, and
- B4-1.1-02, Lender Responsibilities.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-2-05, Approve/Eligible Recommendations (01/27/2015)

Introduction

This topic contains information on Approve/Eligible recommendations.

- Approve/Eligible Recommendations

Approve/Eligible Recommendations

The following table describes these recommendations.

Approve/Eligible	
Eligible for Fannie Mae's limited waiver of certain mortgage loan eligibility and underwriting representations and warranties?	Yes, as long as the mortgage loan satisfies the applicable requirements related to limited waivers as described in this Guide. (See A2-2-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU.)
Satisfies Fannie Mae's credit risk standards/assessment?	Yes
Satisfies Fannie Mae's mortgage loan eligibility criteria?	Yes
Eligible for sale to Fannie Mae?	Yes, if all approval conditions have been met.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-2-06, Approve/Ineligible Recommendations (02/01/2023)

Introduction

This topic contains information on Approve/Ineligible recommendations.

- Overview of Approve/Ineligible Recommendations
- Lender Response to an Approve/Ineligible Recommendation

Overview of Approve/Ineligible Recommendations

Loan casefiles may receive an Ineligible recommendation for a variety of reasons, including:

- The loan does not comply with stated product requirements or policies that apply to DU loans in this Guide; or
- The loan complies with stated product requirements or policies, but has a combination of product features or risk factors that place the loan outside of Fannie Mae's current acquisition preferences and constraints for DU loans.

The lender must determine if the reason for the ineligibility creates an additional layering of credit risk that should be considered as the lender makes the underwriting decision.

The following table provides further information about these recommendations.

Approve/Ineligible	
Eligible for Fannie Mae's limited waiver of certain mortgage eligibility and underwriting representations and warranties?	No (see A2-2-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU)
Satisfies Fannie Mae's credit risk standards/assessment?	Yes
Satisfies Fannie Mae's mortgage loan eligibility criteria?	No, the loan does not meet Fannie Mae's stated eligibility requirements for DU loans, or the combination of product features and risk factors place the loan outside Fannie Mae's current acquisition preferences and constraints for DU loans.
Eligible for sale to Fannie Mae?	Yes, if the lender satisfies at least one of the following criteria: • The lender has negotiated terms (such as variances, exceptions, or special requirements) that specifically permit the sale of the loan as a DU loan. • The lender manually underwrites the loan in accordance with this *Selling Guide* if the loan product or transaction otherwise allows for sale of manually underwritten loans. See B3-1-01, Comprehensive Risk Assessment and the *Eligibility Matrix* for appropriate eligibility requirements and considerations.

Lender Response to an Approve/Ineligible Recommendation

When a loan casefile receives an Approve/Ineligible recommendation, the lender should:

- Review the DU loan data for accuracy and verify that all income, assets, and liabilities were accurately recorded and fully disclosed by the borrower.
- Determine if there is any information outside of the data submitted to DU that could have affected DU's recommendation. In some cases, updating information may resolve the issue that resulted in the ineligibility.
  - For example, if the loan is ineligible due to a combination of product features or risk factors that place the loan outside of Fannie Mae's current acquisition preferences and constraints, the borrower may provide documentation of additional income to lower the debt-to-income ratio or provide a larger down payment to lower the LTV ratio.
- Update the loan application data (if applicable) and resubmit the loan casefile to DU for an updated recommendation.

If the loan casefile still receives and Approve/Ineligible recommendation, the lender may manually underwrite the loan in accordance with the requirements in the table above.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-01	February 01, 2023
Announcement SEL-2021-08	September 01, 2021
Announcement SEL-2020-04	August 05, 2020

B3-2-07, Refer with Caution Recommendations (02/01/2023)

Introduction

This topic contains information on Refer with Caution recommendations, including:

- Overview of Refer with Caution Recommendations

- Lender Response to a Refer with Caution Recommendation

Overview of Refer with Caution Recommendations

The layering and degree of risk factors that result in a Refer with Caution recommendation represent a greater risk of serious delinquency than for those loan casefiles that receive an Approve recommendation.

Any loan casefile that receives a Refer with Caution recommendation from DU does not represent a level of risk that is acceptable to Fannie Mae for DU loans. If the data DU considered was an accurate representation of the borrower's income, assets, liabilities, and credit profile, the loan is not eligible for sale to Fannie Mae as a DU loan.

The following table provides further information about this DU recommendation.

Refer with Caution	
Eligible for Fannie Mae's limited waiver of certain mortgage eligibility and underwriting representations and warranties?	No
Satisfies Fannie Mae's credit risk standards/assessment?	No, the loan does not meet Fannie Mae's credit risk standards for DU loans.
Satisfies Fannie Mae's mortgage eligibility criteria?	No, the loan does not meet Fannie Mae's stated eligibility requirements for DU loans.
Eligible for sale to Fannie Mae?	Not as a DU loan. The lender may manually underwrite the loan in accordance with this *Selling Guide* if the loan product or transaction otherwise allows for sale of manually underwritten loans. See B3-1-01, Comprehensive Risk Assessment and the *Eligibility Matrix* for appropriate eligibility requirements and considerations.

Lender Response to a Refer with Caution Recommendation

When a loan casefile receives a Refer with Caution recommendation, the lender should:

- Review the DU loan data for accuracy and verify that all income, assets, and liabilities were accurately recorded and fully disclosed by the borrower.

- Determine if there is any information outside of the data submitted to DU that could have affected DU's recommendation.
- Update the loan application data (if applicable) and resubmit the loan casefile to DU for an updated recommendation.
- Review the credit report data to determine if the information accurately represents the applicant's credit history. Erroneous data in the credit report, or contradicting or derogatory information, could have affected DU's recommendation. (See B3-2-01, General Information on DU, for additional guidance.)
- Investigate whether there were any extenuating circumstances that contributed to serious instances of derogatory credit.

If the loan casefile still receives a Refer with Caution recommendation, the lender may manually underwrite the loan in accordance with the requirements in the table above.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements and Release Notes	Issue Date
Announcement SEL-2023-01	February 01, 2023

B3-2-08, Out of Scope Recommendations (04/01/2009)

Introduction

This topic contains information on Out of Scope recommendations.

- Out of Scope Recommendation

Out of Scope Recommendation

An Out of Scope recommendation indicates that DU is unable to underwrite the particular product, mortgage, or borrower described in the submission.

Any mortgage that receives an Out of Scope recommendation must be manually underwritten.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-2-09, Erroneous Credit Report Data (01/27/2015)

Introduction

This topic contains information on erroneous credit report data, including:

- Erroneous Credit Report Data
- Merged Credit Reports and the Impact on DU's Evaluation
- Lender Action Regarding Derogatory Credit Reported in Error

Erroneous Credit Report Data

The lender is responsible for ensuring that credit report data used by DU in its underwriting analysis is accurate. Significant, material credit errors in a borrower's credit report may have a negative impact on the underwriting recommendation from DU.

When there is documented evidence of material erroneous credit data, the underwriter should work with the credit repository to correct the data and resubmit the loan casefile to DU for underwriting. If there is not enough time to obtain corrected information, or if there are extenuating circumstances that contributed to the derogatory credit, the lender may manually underwrite the mortgage.

If significant material credit errors in the credit report have had a negative impact on the underwriting recommendation from DU resulting in a Refer with Caution recommendation, the lender may consider underwriting the loan manually in accordance with this *Selling Guide*, provided that the loan product or transaction otherwise allows for delivery of manually underwritten loans.

If the loan complies with Fannie Mae's standard eligibility and underwriting guidelines, it must be delivered as a manually underwritten loan with SFC 343. Such manually underwritten loans are not eligible for DU's limited waiver of representations and warranties.

Merged Credit Reports and the Impact on DU's Evaluation

Errors that are the result of the credit merge do not typically affect the credit or risk analysis of the loan casefile.

DU attempts to identify duplicate tradelines, including public record items, that are the result of the merge, and ignores duplicate accounts in the credit analysis.

Public record information is frequently duplicated on the credit report because the credit agencies do not attempt to merge or match items of this severe nature. A public record item may appear in the credit report three times—once from each repository—but the duplication will not affect the risk analysis of the case.

Lender Action Regarding Derogatory Credit Reported in Error

If it is determined that significant derogatory credit has been reported in error, the lender must obtain written documentation that supports the error. The following types of written documentation support erroneous information:

- a supplement to the credit report
- a new mortgage credit report,
- documentation from the credit provider that reported the error.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report (12/04/2019)

Introduction

This topic contains information on the accuracy of DU data, DU tolerances, and errors in the credit report, including:

Ensuring DU Data and Delivery Information Accuracy

The data submitted to DU must reflect the loan as it was closed, including occupancy type, product type, amortization, loan term, property type, loan purpose, sales price, and appraised value.

Verification documents must be reviewed and the verified values compared to the data submitted to DU. The terms of the closed loan must match the terms of the final loan casefile submission in DU or fall within the tolerances listed in the following table:

Data Attribute and Description	Trigger	Action Required
• Interest rate increase • Discrepancies between the credit report payments and balances and those listed on the online loan application, including the presence of debt that is on the credit report but not on the application • Additional debt(s) disclosed by the borrower or identified by the lender during the mortgage process • Verified income is less than the income on the loan application submitted to DU	DU loans — the result of these changes causes the DTI ratio recalculated by the lender to • now exceed 45%, or • increase by 3 percentage points or more (if the recalculated DTI ratio is 50% or less) * See resubmission examples below.	Loan casefile must be resubmitted to DU
Interest rate on fixed-rate and adjustable-rate mortgages	Interest rate decreases, not as the result of a permanent interest rate buydown	No resubmission required
Interest rate on fixed-rate and adjustable-rate mortgages	Interest rate decreases as the result of a permanent interest rate buydown	Loan casefile must be resubmitted to DU
Verified income used to qualify the borrower for loans subject to income limits; for example, as with HomeReady loans.	Income is greater than the loan application indicates	Loan casefile must be resubmitted to DU
Assets — Funds Required to Close	The actual amount of assets required to close the transaction exceeds the amount of “Funds Required to Close” per the DU Underwriting Findings report	If the lender has documented sufficient liquid assets to cover the actual amount of assets required to close the transaction, no resubmission required Otherwise, loan casefile must be resubmitted to DU

Data Attribute and Description	Trigger	Action Required
Assets — Reserves Required to be Verified	Due to changes in the actual amount of assets required to close the transaction, the verified amount of reserves is less than the “Reserves Required to be Verified” per the DU Underwriting Findings report	If the lender has documented reserves that equal at least 90% of the Reserves Required to be Verified per the DU Underwriting Findings report, no resubmission required Otherwise, loan casefile must be resubmitted to DU
Loan amount tolerances for refinance transactions	(See below)	

***Resubmission examples based on DTI triggers**

Original DTI	Recalculated DTI	Resubmission Required
35	40	Yes
44	46	Yes
46	48	No
46	50	Yes

DU Tolerances for Refinance Transaction Loan Amount Changes

For refinance transactions, Fannie Mae allows the following tolerances to the loan amount:

- The loan amount may increase $500 or up to 1% of the loan amount, whichever is less.
- The loan amount may decrease 5% of the loan amount.

The loan amount tolerances are permitted provided the new LTV/CLTV does not result in

- changes to the amount of required mortgage insurance coverage,
- different loan-level price adjustments, or
- changes to loan eligibility.

For example, if a loan casefile is submitted with a loan amount of $100,000 and the appraised value is $120,000 (which equals 83.3% LTV), the actual loan amount can go up to $100,500 (which equals 83.75% LTV) without requiring resubmission.

On the other hand, if the original loan amount was $108,000 (90% LTV), an increase without resubmission is not permitted because it would result in an LTV of 91%. The higher LTV requires different mortgage insurance coverage, and may result in the loan not being eligible for delivery.

The loan amount tolerance does not apply to Fannie Mae's requirements regarding the amount of cash back to the borrower on a limited cash-out refinance transaction. (See B2-1.3-02, Limited Cash-Out Refinance Transactions.)

Other Errors in the Credit Data

In some cases, errors are the result of reporting errors by the credit agency or individual creditors.

If the printed credit report contains derogatory information, and DU does not recognize or consider the derogatory information and does not reflect the derogatory information in the DU Underwriting Findings report, the lender must take action when information not considered by DU would result in a recommendation other than that returned by DU.

For example, if a borrower's credit report indicates that the borrower had a previous foreclosure, but the DU Underwriting Findings report does not reference the foreclosure, a reporting or data transfer error may have occurred, thus preventing DU from considering the foreclosure in its analysis of the loan. The lender must take action to ensure that the information is considered in the risk analysis.

Non-Applicant Debts/Accounts

In a small number of casefiles, credit reports may include accounts identified as possible non-applicant accounts (or with another similar notation). DU will include these tradelines in the credit risk assessment, and will also include the accounts in the DTI ratio when provided on the loan application. See B3-6-05, Monthly Debt Obligations for the requirements.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-09	December 04, 2019
Announcement SEL-2019-07	August 07, 2019

Announcements	Issue Date
Announcement SEL-2018-09	December 04, 2018

B3-2-11, DU Underwriting Findings Report (09/07/2022)

Introduction

This topic contains information on the DU Underwriting Findings report, including:

- Overview
- Potential Red Flag Messages

Overview

The DU Underwriting Findings report summarizes the overall underwriting recommendation and eligibility component of the loan casefile and lists certain steps necessary for the lender to complete the processing of the loan file.

Specific messages are provided for each individual loan casefile. These detailed messages are designed to assist lenders in processing and closing loans. However, the level of documentation recommended by DU may not be adequate for every borrower and every situation.

The DU Underwriting Findings report is divided into sections. Each section contains a different type of message. Certain messages will be provided based on the DU credit risk assessment. For example, some messages are returned only on Approve recommendations, while other messages are returned only on Refer with Caution recommendations.

Potential Red Flag Messages

DU provides a number of “potential red flag” messages designed to help the lender detect inconsistencies in the loan casefile. Neither the presence nor absence of these messages alters the lender’s responsibility to ensure accurate information in all areas of the loan process or otherwise comply with applicable law, including the Fair Credit Reporting Act.

> **Note**: The appearance of these messages does not affect the underwriting recommendation from DU. Rather, they are designed to help lenders detect inconsistencies. Furthermore, the absence of any of these messages does not indicate or imply Fannie Mae’s acceptance of the data submitted to DU.

The following lists potential red flag messages:

- Excessive resubmissions: A message alerts lenders when an unusually high number of loan resubmissions may be the result of data manipulation.
- Frozen credit report: A message alerts lenders when a borrower has frozen their account with one of the credit repositories.
- Potential casefile ID reuse: A message alerts lenders when the subject property address, Doc File ID, occupancy, or loan purpose have been modified. The message serves as a reminder that the DU loan casefile ID is unique to an individual loan and the same casefile ID may not be used to underwrite more than one loan in DU.

More information can be found in the *Desktop Underwriter Potential Red Flags Messages* matrix.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-08	September 07, 2022

Chapter B3-3, Income Assessment

Introduction

This chapter describes the requirements for evaluating income stability, adequacy, and likelihood of continuance — key factors used in qualifying the borrower and assessing his or her capacity to repay the mortgage over the life of the loan.

Section B3-3.1, Employment and Other Sources of Income

B3-3.1-01, General Income Information (10/05/2022)

Stable and Predictable Income

Fannie Mae's underwriting guidelines emphasize the continuity of a borrower's stable income. The stable and reliable flow of income is a key consideration in mortgage loan underwriting. Individuals who change jobs frequently, but who are nevertheless able to earn consistent and predictable income, are also considered to have a reliable flow of income for qualifying purposes.

To demonstrate the likelihood that a consistent level of income will continue to be received for borrowers with less predictable sources of income, the lender must obtain information about prior earnings. Examples of less predictable income sources include commissions, bonuses, substantial amounts of overtime pay, or employment that is subject to time limits, such as contract employees or tradesmen.

Variable Income

All income that is calculated by an averaging method must be reviewed to assess the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received. Examples of income of this type include income from hourly workers with fluctuating hours, or income that includes commissions, bonuses, or overtime.

History of Receipt: Two or more years of receipt of a particular type of variable income is recommended; however, variable income that has been received for 12 to 24 months may be considered as acceptable income, as long as the borrower's loan application demonstrates that there are positive factors that reasonably offset the shorter income history.

Frequency of Payment: The lender must determine the frequency of the payment (weekly, biweekly, monthly, quarterly, or annually) to arrive at an accurate calculation of the monthly income to be used in the trending analysis (see below). Examples:

- If a borrower is paid an annual bonus on March 31st of each year, the amount of the March bonus should be divided by 12 to obtain an accurate calculation of the current monthly bonus amount. Note that dividing the bonus received on March 31st by three months produces a much higher, inaccurate monthly average.

- If a borrower is paid overtime on a biweekly basis, the most recent paystub must be analyzed to determine that both the current overtime earnings for the period and the year-to-date overtime earnings are consistent and, if not, why. There are legitimate reasons why these amounts may be inconsistent yet still eligible for use as qualifying income. For example, borrowers may have overtime income that is cyclical (transportation employees who operate snow plows in winter, package delivery service workers who work longer hours through the holidays). The lender must investigate the difference between current period overtime and year-to-date earnings and document the analysis before using the income amount in the trending analysis.

Income Trending: After the monthly year-to-date income amount is calculated, it must be compared to prior years' earnings using the borrower's W-2's or signed federal income tax returns (or a standard Verification of Employment completed by the employer or third-party employment verification vendor).

- If the trend in the amount of income is stable or increasing, the income amount should be averaged.
- If the trend was declining, but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any variable income should be used, but in no instance may it be averaged over the period when the declination occurred.

Continuity of Income

A key driver of successful homeownership is confidence that all income used in qualifying the borrower will continue to be received by the borrower for the foreseeable future. Unless the lender has knowledge to the contrary, if the income does not have a defined expiration date and the applicable history of receipt of the income is documented (per the specific income type), the lender may conclude that the income is stable, predictable, and likely to continue. The lender is not expected to request additional documentation from the borrower.

If the income source does have a defined expiration date or is dependent on the depletion of an asset account or other limited benefit, the lender must document the likelihood of continued receipt of the income for at least three years.

If the lender is notified that the borrower is transitioning to a lower pay structure, for example due to pending retirement or a new job, the lender must use the lower amount to qualify the borrower.

The following table contains examples of income types with and without defined expiration dates. This information is provided to assist lenders in determining whether additional income documentation may be necessary to support a three-year continuance. Note that lenders remain responsible for making the final determination of whether the borrower's specific income source has a defined expiration date. See B3-3.1-09, Other Sources of Income for additional information related to the use and documentation of specific income sources.

Examples of income types without a defined expiration date	Examples of income types with a defined expiration date
Lender does not need to document 3–year continuance • automobile allowance • base salary • bonus, overtime, commission, or tip income • capital gains income • corporate retirement or pension • disability income — long-term • foster-care income • interest and dividend income (unless other evidence that asset will be depleted) • military income • mortgage credit certificates • part-time job, second job, or seasonal income • rental income • self-employment income • Social Security, VA, or other government retirement or annuity	Lender must document 3–year continuance • alimony, child support, or separate maintenance • distributions from a retirement account – for example, 401(k), IRA, SEP, Keogh • mortgage differential payments • notes receivable • public assistance • royalty payment income • Social Security (not including retirement or long-term disability) • trust income • VA benefits (not including retirement or long-term disability) **Note:** Because these income sources have a defined expiration date or allow the depletion of an asset, care must be taken when this is the sole source or the majority of qualifying income. Lenders must consider the borrower’s continued capacity to repay the loan when the income source expires or the distributions will deplete the asset prior to maturation of the loan.

Income sources that are not listed above will require lender judgment to determine if documentation of continuance must be obtained.

Determining the Need for Federal Income Tax Returns

The lender must obtain copies of the borrower’s signed federal income tax returns filed with the IRS for the past one or two years (depending on the income type) for the following sources of income or employment. Refer to the applicable topics in Chapter B3-3, Income Assessment for additional information about specific tax return requirements.

Tax returns are required if the borrower

- is employed by family members (two years’ returns);
- is employed by interested parties to the property sale or purchase (two years’ returns);
- receives rental income from an investment property;
- receives income from temporary or periodic employment (or unemployment) or employment that is subject to time limits, such as a contract employee or a tradesman;

- receives income from capital gains, royalties, or other miscellaneous non-employment earnings reported on IRS Form 1099;
- receives income that cannot otherwise be verified by an independent and knowledgeable source (two years' returns);
- uses foreign income to qualify;
- uses interest and dividend income to qualify;
- uses tip income reported on IRS Form 4137 that was not reported by the employer on the W-2 to qualify; or
- receives income from sole proprietorships, limited liability companies, partnerships, or corporations, or any other type of business structure in which the borrower has a 25% or greater ownership interest. Borrowers with a 25% or greater ownership interest are considered self-employed. The lender must document and underwrite the loan application using the requirements for self-employed borrowers, as described in Section B3–3.2, Self-Employment Income. Note that for DU loan casefiles, only the most recent year of tax returns may be required.

If a borrower's income is validated by the DU validation service, lenders are not required to determine if the borrower is employed by a family member or interested party to the property sale or purchase. See B3-2-02, DU Validation Service.

See B3-3.1-06, Requirements and Uses of IRS IVES Request for Transcript of Tax Return Form 4506-C, for information about obtaining tax return transcripts.

Verification of Income for Non-U.S. Citizen Borrowers

The following table describes income verification requirements for borrowers who are non-U.S. citizens:

Employment Type	Employment and Income Verification Requirements
Salaried or commissioned borrower employed by a U.S. company or individual	Same as for a U.S. citizen. See Section B3-3.1, Employment and Other Sources of Income.
Self-employed	Same as for a U.S. citizen. See Section B3-3.2, Self-Employment Income.
Employed by a foreign corporation or a foreign government and paid in foreign currency ("foreign income")	The lender must obtain: • copies of the borrower's signed federal income tax returns filed with the IRS for the most recent two-year period, and • documentation to satisfy the standard documentation requirements in this Chapter. **Note**: All income must be translated to U.S. dollars.

For information on U.S. citizens earning foreign income, refer to B3-3.1-09, Other Sources of Income.

Using Nontaxable Income to Adjust the Borrower's Gross Income

The lender should give special consideration to regular sources of income that may be nontaxable, such as child support payments, Social Security benefits, workers' compensation benefits, certain types of public assistance payments, and food stamps.

The lender must verify that the particular source of income is nontaxable. Documentation that can be used for this verification includes award letters, policy agreements, account statements, or any other documents that address the nontaxable status of the income.

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the lender may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.

If the actual amount of federal and state taxes that would generally be paid by a wage earner in a similar tax bracket is more than 25% of the borrower's nontaxable income, the lender may use that amount to develop the adjusted gross income, which should be used in calculating the borrower's qualifying ratio.

Reduced Income Documentation Requirements for High LTV Refinance Loans

For certain high LTV refinance loans, lenders are not required to follow the income documentation requirements described in this Chapter. Refer to Chapter B5-7: High Loan-to-Value Refinance Option for specific requirements.

Income Paid in Virtual Currency

Any income paid to or earned by the borrower in the form of virtual currency, such as cryptocurrencies, is not eligible to be used to qualify for the loan. For other income types see B3-3.1-09, Other Sources of Income.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-09	October 05, 2022
Announcement SEL-2022-04	May 04, 2022
Announcement SEL-2020-07	December 16, 2020

Announcements	Issue Date
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-09	December 04, 2018
Announcement SEL-2018-06	August 07, 2018

B3-3.1-02, Standards for Employment Documentation (12/16/2020)

Introduction

This topic contains information on the standards for documentation of employment income, including:

- General Documentation Requirements
- Employment Documentation Provided by the Borrower
- Employment Documentation Provided by the Borrower's Employer
- Employment Documentation Provided by a Third-Party Employment Verification Vendor

General Documentation Requirements

The lender must verify employment income for all borrowers whose income is used to qualify for the mortgage loan. This verification can be provided by the borrower, by the borrower's employer, or by a third-party employment verification vendor.

Employment Documentation Provided by the Borrower

The following table provides requirements for documentation provided by the borrower.

✓	Requirements — Paystubs and W-2s
	The paystub must be dated no earlier than 30 days prior to the initial loan application date and it must include all year-to-date earnings. Additionally, the paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained. Paystubs must comply with B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns.
	IRS W-2 forms must cover the most recent one- or two-year period, based on the documentation requirements for the particular income type. The W-2 forms must clearly identify the borrower as the employee. "Most recent" W-2 is defined as the W-2 for the calendar year prior to the current calendar year. Alternative documentation, such as an IRS Wage and Income (W-2) Transcript, a written *Request for Verification of Employment* (Form 1005 or Form 1005(S)) (see below) or the final year-to-date paystub, may be used as long as adequate information is provided.
	Documents must be computer-generated or typed by the borrower's employer(s), although paystubs that the borrower downloads from the Internet are also acceptable. Documents must clearly identify the employer's name and source of information.
	The documents must clearly identify the borrower as the employee.
	The information must be complete and legible.
	The original source of the information must be a third party, such as the borrower's human resources department, personnel office, payroll department, company's payroll vendor, or supervisor.
✓	**Requirements — Tax Returns**
	When required, personal federal income tax returns must be copies of the original returns that were filed with the IRS. All supporting schedules must be included. Alternatively, the lender may obtain applicable transcripts of federal income tax returns. See B3-3.1-06, Requirements and Uses of IRS IVES Request for Transcript of Tax Return Form 4506-C. "Most recent" tax return is defined as the last return scheduled to have been filed with the IRS. See B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns.

✓	Requirements — Paystubs and W-2s
	The information must be complete and legible.
	Each tax return must be signed by the borrower unless the lender has obtained one of the following signature alternatives: • documentation confirming that the tax returns were filed electronically, • a completed IRS Form 4506–C (signed by the borrower) for the year in question, or • IRS transcripts that validate the tax return.

Employment Documentation Provided by the Borrower’s Employer

The lender may use the *Request for Verification of Employment* (Form 1005 or Form 1005(S)) to document income for a salaried or commissioned borrower. The date of the completed form must comply with B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns.

The information on the Form 1005 or Form 1005(S) must be legible. The following fields on the form are optional:

Field #	Title of Optional Field
11	Probability of continued employment
14	If overtime or bonus is applicable, is its continuance likely?
16	Date of applicant’s next pay increase
17	Projected amount of next pay increase
18	Date of applicant’s last pay increase
19	Amount of last pay increase
24	Reason for leaving (Part III — Verification of Previous Employment)

The remaining fields on the form must be completed as applicable to the borrower. For example, overtime may not be completed if the borrower is in a position that does not pay overtime.

When the borrower authorizes the lender to obtain verifications of employment and income directly from the employer, the lender must have the borrower sign Form 1005 or Form 1005(S).

Alternatively, the lender may have the applicant sign a signature authorization form, which gives the lender blanket authorization to request the information it needs to evaluate the applicant's creditworthiness (see B1-1-02, Blanket Authorization Form).

Employment Documentation Provided by a Third-Party Employment Verification Vendor

The lender may receive employment and income verification directly from a third-party employment verification vendor. These verifications are acceptable as long as

- the borrower provided proper authorization for the lender to use this verification method,
- the date of the completed verification is in compliance with B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns,
- the lender has determined that the vendor has made provisions to comply with reasonable quality control requests from both the lender and any subsequent mortgagee, and
- the lender understands it will be held accountable for the integrity of the information obtained from this source.

If necessary, the lender must supplement these verifications by obtaining any missing information from the borrower or their employer.

Loans that are submitted through the DU validation service must comply with all requirements pertaining to the DU validation service. See B3-2-02, DU Validation Service.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements and Release Notes	Issue Date
Announcement SEL-2020-07	December 16, 2020

B3-3.1-03, Base Pay (Salary or Hourly), Bonus, and Overtime Income (11/03/2021)

Introduction

This topic contains information on base pay (salary and hourly), bonus, and overtime income, including:

- Verification of Base Pay, Bonus, and Overtime Income
- Base Income Calculation Guidelines
- Military Income

Verification of Base Pay, Bonus, and Overtime Income

The following table provides verification requirements for base pay, bonus, and overtime income:

✓	Verification of Base Pay, Bonus, and Overtime Income
	A minimum history of two years of employment income is recommended. However, income that has been received for a shorter period of time may be considered as acceptable income, as long as the borrower's employment profile demonstrates that there are positive factors to reasonably offset the shorter income history. Borrowers relying on overtime or bonus income for qualifying purposes must have a history of no less than 12 months to be considered stable.
	Base Pay (Salary and Hourly): Obtain the following documents: • a completed *Request for Verification of Employment* (Form 1005 or Form 1005(S)), or • the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
	Bonus or Overtime: Obtain the following documents: • a completed Form 1005 or Form 1005(S), or • the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
	See B3-3.1-01, General Income Information, for additional information on calculating variable income (applies to hourly paid employees with fluctuating hours and bonus and overtime).
	If the borrower has recently changed positions with their employer, determine the effect of the change on the borrower's eligibility and opportunity to receive bonus or overtime pay in the future.
	If a borrower who has historically been employed on a part-time basis indicates that they are now working full-time, obtain written confirmation from the borrower's employer.

✓	Verification of Base Pay, Bonus, and Overtime Income
	A verbal VOE is required from each employer. See B3-3.1-07, Verbal Verification of Employment, for specific requirements.
	See B3-3.1-02, Standards for Employment Documentation, for additional information about verifying employment income.

Base Income Calculation Guidelines

After the applicable income documentation has been obtained, the lender must calculate the borrower's eligible qualifying base income. The following table provides guidance for standard employment documentation:

How Often Paid	How to Determine Monthly Income
Annually	Annual gross pay / 12 months
Monthly	Use monthly gross payment amount
Twice Monthly	Twice monthly gross pay x 2 pay periods
Biweekly	(Biweekly gross pay x 26 pay periods) / 12 months
Weekly	(Weekly gross pay x 52 pay periods) / 12 months
Hourly	(Hourly gross pay x average # of hours worked per week x 52 weeks) / 12 months
All of the above calculations must be compared with the documented year-to-date base earnings (and past year earnings, if applicable) to determine if the income amount appears to be consistent. See B3-3.1-01, General Income Information, for additional information about variable income (bonus and overtime).	

Military Income

Military personnel may be entitled to different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters' allowance, and proficiency pay are acceptable sources of stable income, as long as the lender can establish that the particular source of income will continue to be received in the future. To verify military base pay and entitlements, the lender must obtain the borrower's most recent Leave and Earnings Statement (LES).

Income paid to military reservists while they are satisfying their reserve obligations also is acceptable if it satisfies the same stability and continuity tests applied to secondary employment.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-10	November 03, 2021

B3-3.1-04, Commission Income (12/04/2018)

Introduction

This topic contains information on the verification of commission income.

- Verification of Commission Income

Verification of Commission Income

The following table provides verification requirements for commission income.

✓	Verification of Commission Income
	A minimum history of 2 years of commission income is recommended; however, commission income that has been received for 12 to 24 months may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.
	One of the following must be obtained to document commission income: • a completed *Request for Verification of Employment* (Form 1005 or Form 1005(S)), or • the borrower’s recent paystub and IRS W-2 forms covering the most recent two-year period.

✓	**Verification of Commission Income**
	A verbal VOE is required from each employer. See B3-3.1-07, Verbal Verification of Employment, for specific requirements.
	See B3-3.1-01, General Income Information, for additional information about calculating variable income.
	See B3-3.1-02, Standards for Employment Documentation, for additional information about verifying employment income.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-09	December 04, 2018

B3-3.1-05, Secondary Employment Income (Second Job and Multiple Jobs) and Seasonal Income (12/15/2021)

Introduction

This topic contains information on income from secondary and seasonal employment, including:

- Documentation Requirements
- Verification of Secondary Employment Income
- Verification of Seasonal Income

Documentation Requirements

The income sources discussed in this topic must be documented by obtaining the following:

- a completed *Request for Verification of Employment* (Form 1005 or Form 1005(S)); or
- the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period. (Signed federal income tax returns may also be required to verify unemployment income related to seasonal employment.)

A verbal VOE is also required from each employer. See B3-3.1-07, Verbal Verification of Employment, for specific requirements.

As these income types may be hourly or seasonal, refer to B3-3.1-01, General Income Information, for additional information on calculating variable income. Also see B3-3.1-02, Standards for Employment Documentation, for additional information about verifying employment income.

Verification of Secondary Employment Income

Secondary employment income is income that is derived from a second job or multiple jobs the borrower may have. The lender must verify the following.

✓	**Verification of Secondary Employment Income**
	Verification of a minimum history of two years secondary employment income is recommended. However, income that has been received for a shorter period of time (but, no less than 12 months) may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.
	A borrower may have a history that includes different employers, which is acceptable as long as income has been consistently received. In no instance may the borrower have any gap in employment greater than one month in the most recent 12-month period, unless the secondary employment is considered seasonal income (subject to the requirements below).

Verification of Seasonal Income

The lender must verify the following for seasonal income.

✓	**Verification of Seasonal Income**
	Verify the borrower has at least a two-year history of seasonal employment and income.
	For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. See B3-3.1-09, Other Sources of Income, for more information on unemployment benefits.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-11	December 15, 2021
Announcement SEL-2021-01	February 03, 2021
Announcement SEL-2019-07	August 07, 2019

B3-3.1-06, Requirements and Uses of IRS IVES Request for Transcript of Tax Return Form 4506-C (12/16/2020)

Introduction

The IRS Form 4506-C is a form that can be utilized by authorized IRS Income Verification Express Service (IVES) participants to order tax transcripts electronically with the consent of the taxpayer. This topic contains information on the use of (IRS Form 4506-C), including:

- Use of IRS Form 4506-C to Validate Borrower Income Documentation
- Use of IRS Forms to Obtain Federal Income Tax Information
- Completing and Submitting the IRS Authorization Form
- Retaining the Tax Documents

Use of IRS Form 4506-C to Validate Borrower Income Documentation

Fannie Mae requires lenders to have each borrower whose income (regardless of income source) is used to qualify for the loan to complete and sign a separate IRS Form 4506-C at or before closing. An alternate form is also acceptable if it authorizes the release of comparable tax information from the IRS. As noted below, it may be necessary to have the borrower complete and sign multiple IRS Form 4506-Cs depending on the transcripts required to validate the income.

> **Note**: Borrowers with income from Puerto Rico must use Modelo SC 2907 (Solicitud De Copia De Planilla, Relevo De Herencia Y De Donacion) rather than IRS Form 4506-C. Applicable forms or

> processes for eligible borrowers filing tax returns in other U.S. territories must be adhered to and obtained when required.

In addition, the lender must document the requirement to obtain tax transcripts by submitting the IRS Form 4506–C to the IRS (directly or through an authorized designee) in their written quality control (QC) plan. See D1-3-02, Lender Post-Closing Quality Control Review of Approval Conditions, Underwriting Decisions, and Documentation for details concerning QC requirements.

If the lender submits the IRS Form 4506–C to the IRS prior to closing, the transcript(s) must be used to validate the income documentation provided by the borrower and used in the underwriting process. In this case, because the lender has already received the tax transcript(s), an additional signed IRS Form 4506-C is not required to be signed by the borrower.

When all of a borrower’s income is validated by the DU validation service, the lender is not required to obtain a signed IRS Form 4506–C for that borrower.

Use of IRS Forms to Obtain Federal Income Tax Information

When federal income tax information is used to document income for qualifying purposes, the lender may obtain transcripts of the applicable federal income tax documents. For example, the lender may obtain Tax Return Transcripts for Form 1040 or Wage and Income Transcripts for W2s, 1098s, and 1099s. However, in certain instances, copies of the actual returns, schedules, or forms are needed because the tax return transcripts will not provide the detail required to qualify the borrower. For example, the lender must obtain copies of Schedules B through F, Schedule K-1, or business returns. These schedules or forms are not required if:

- the income reflected on the applicable schedule transcripts is positive, and
- the income supported by that schedule or form is not being used for qualifying.

If a borrower’s self-employment income from a sole proprietorship (as reported on IRS Form 1040, Schedule C or C-EZ) is validated by the DU validation service, lenders are not required to obtain the tax returns. Documentation in accordance with the DU message is acceptable. The DU message may allow a tax transcript rather than the tax returns. See B3-2-02, DU Validation Service, for additional information.

Completing and Submitting the IRS Authorization Form

IRS Form 4506-C can be used to obtain transcripts for up to four years or tax periods but only one tax form number can be requested per each IRS Form 4506-C. For example, it is necessary to complete two IRS Form 4506-Cs for a self-employed borrower whose income documentation includes both two years of personal tax returns and two years of business tax returns. One IRS Form 4506-C will be required to obtain a transcript of the personal 1040 returns and another will be required for the business returns (Form 1065, Form 1120, Form 1120A, etc.).

Lenders must

- fill in as the recipient of the tax documents — either its name or the name of the servicer, if servicing will be transferred within 120 days of the taxpayer signing the form;

- indicate that the request is for documentation concerning the year or years for which the borrower's income was or will be used in underwriting the loan; and
- date the form(s) with the date on which the borrower signs the form (or ascertain that the borrower dates the form when they sign it).

IRS Form 4506-C is valid for 120 days after completion (including signature) by the borrower.

> **Note**: The borrower should not be required to sign an IRS authorization form before all items on the form, including the transcript being requested, the years/tax periods, and the date, have been completed.

Retaining the Tax Documents

All tax documents, including either the IRS Form 4506-C or the tax transcript(s) received from the IRS, and any subsequent explanation or documentation of discrepancies must be retained in the loan file for QC review.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2019-06	July 03, 2019
Announcement SEL-2018-09	December 04, 2018

B3-3.1-07, Verbal Verification of Employment (08/03/2022)

Introduction

This topic contains information on verbal verification of employment requirements for all borrowers.

- Verbal Verification of Employment

Verbal Verification of Employment

Lenders must obtain a verbal verification of employment (verbal VOE) for each borrower using employment or self-employment income to qualify. The verbal VOE must be obtained within 10 business days prior to the note date for employment income, and within 120 calendar days prior to the note date for self-employment income. The verbal VOE requirement is intended to help lenders mitigate risk by confirming, as late in the process as possible, that the borrower remains employed as originally disclosed on the loan application. A change in the borrower's employment status could have a significant impact on that borrower's capacity to repay the mortgage loan and must be fully reevaluated.

Alternatively, lenders may obtain the verbal VOE after closing, up to the time of loan delivery. If the verbal VOE cannot be obtained prior to delivery, the loan is ineligible for delivery to Fannie Mae.

> **Note:** If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower "employed." See B3-3.1-09, Other Sources of Income, for details on temporary leave.

The following table describes verbal VOE requirements:

Type of Income	Verbal VOE Requirements
Hourly, Salary, and Commission Income (Non-Military)	Requirements: • The lender must independently obtain a phone number and, if possible, an address for the borrower's employer. This can be accomplished by using a telephone book, the Internet, directory assistance, or by contacting the applicable licensing bureau. • The lender must contact the employer verbally and confirm the borrower's current employment status within 10 business days prior to the note date. **Note**: If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower "employed." See B3-3.1-09, Other Sources of Income, for details on temporary leave. • The conversation must be documented. It should include the following: ◦ name and title of the person who confirmed the employment for the lender, ◦ name and title of the person who completed the verification for the employer, ◦ date of the call, and ◦ the source of the phone number. Alternative Methods to Verify Employment: • If the employer will not verbally verify employment, the lender can obtain ◦ a written verification (other than an additional paystub) confirming the borrower's current employment status within the same time frame as the verbal VOE requirements. The written documentation must include the name and title of the person who completed the verification for the employer. ◦ an email exchange with the borrower's employer from the employer's work email address within the same time frame as the verbal VOE requirements. ▪ The lender must conduct additional due diligence to confirm that the email address for the employer is accurate. Examples of due diligence include, but are not limited to, searches of domain name on employer website (review for match to employer email address), employer directory on the internet, or other professional networking or business profile websites. ▪ The email exchange must include borrower's name and employer's name; name, title, and work email address of the individual contacted at the employer; date of contact; and borrower's current employment status. • If the borrower is a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), and the union facilitates the borrower's placement in each assignment, the lender may obtain the verbal VOE from the union. • If the employer uses a third-party employment verification vendor, the lender must obtain written verification from the vendor of the borrower's current employment status within the same time frame as the verbal VOE requirements. **Note**: Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database was no more than 35 days old as of the note date. When employment is validated by DU, DU includes in its assessment the age of the information in the vendor's database. The DU message will include a date by which the loan must close. This may differ from the age of data and 10 business day requirements above. Compliance with the DU message satisfies the requirement for completing the verification of employment. See B3-2-02, DU Validation Service for additional information.

Type of Income	Verbal VOE Requirements
Military Personnel	If the borrower is in the military, in lieu of a verbal or written VOE, the lender must obtain either • a military Leave and Earnings Statement dated within 120 calendar days prior to the note date, or • a verification of employment through the Defense Manpower Data Center. See E-1-02, List of Contacts for additional information.
Self-Employed Income	Requirements: • The lender must verify the existence of the borrower's business within 120 calendar days prior to the note date ∘ from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; or ∘ by verifying a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance. • The lender must document the source of the information obtained and the name and title of the lender's employee who obtained the information.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-07	August 03, 2022
Announcement SEL-2021-10	November 03, 2021
Announcement SEL-2018-08	October 02, 2018

B3-3.1-08, Rental Income (05/04/2022)

Introduction

This topic provides information on qualifying a borrower’s rental income, including:

- Associated Policies
- Eligible Properties

Associated Policies

In conjunction with the policies in this topic, lenders must also comply with, as applicable, but not limited to, the policies in the following:

- B2-2-03, Multiple Financed Properties for the Same Borrower;
- B3-3.1-01, General Income Information (Continuity of Income);
- B3-3.5-02, Income from Rental Property in DU;
- B3-4.1-01, Minimum Reserve Requirements; and
- B3-6-06, Qualifying Impact of Other Real Estate Owned.

Eligible Properties

Rental income is an acceptable source of stable income if it can be established that the income is likely to continue. If the rental income is derived from the subject property, the property must be one of the following:

- a two- to four-unit principal residence property in which the borrower occupies one of the units, or
- a one- to four-unit investment property.

If the income is derived from a property that is not the subject property, there are no restrictions on the property type. For example, rental income from a commercial property owned by the borrower is acceptable if the income otherwise meets all other requirements (it can be documented in accordance with the requirements below).

Ineligible Properties

Generally, rental income from the borrower's principal residence (a one-unit principal residence or the unit the borrower occupies in a two- to four-unit property) or a second home cannot be used to qualify the borrower. However, Fannie Mae does allow certain exceptions to this policy for boarder income and properties with accessory units. See B3-3.1-09, Other Sources of Income, for boarder income requirements, and B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements, for accessory unit income requirements.

General Requirements for Documenting Rental Income

If a borrower has a history of renting the subject or another property, generally the rental income will be reported on IRS Form 1040, Schedule E of the borrower’s personal tax returns or on Rental Real Estate Income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return. If the borrower does not have a history of renting the subject property or if, in certain cases, the tax returns do not accurately reflect the ongoing income and expenses of the property, the lender may be justified in using a fully executed current lease agreement. Examples of scenarios that justify the use of a lease agreement are

- purchase transactions;
- refinance transactions in which the borrower purchased the rental property during or subsequent to the last tax return filing; or
- refinance transactions of a property that experienced significant rental interruptions such that income is not reported on the recent tax return (for example, major renovation to a property occurred in the prior year that affected rental income).

When the subject property will generate rental income and it is used for qualifying purposes, one of the following Fannie Mae forms must be used to support the income-earning potential of the property:

- For one-unit properties: *Single-Family Comparable Rent Schedule* (Form 1007) (provided in conjunction with the applicable appraisal report), or
- For two- to four-unit properties: *Small Residential Income Property Appraisal Report* (Form 1025).

> **Note**: The rental payment on the lease must be reflected in U.S. dollars (cannot be in virtual currency).

Documenting Rental Income from Subject Property

The lender must obtain documentation that is used to calculate the monthly rental income for qualifying purposes. The documentation may vary depending on whether the borrower has a history of renting the property, and whether the prior year tax return includes the income.

Does the Borrower Have a History of Receiving Rental Income From the Subject Property?	Transaction Type	Documentation Requirements
Yes	Refinance	Form 1007 or Form 1025, as applicable, and either • the borrower's most recent year of signed federal income tax returns, including Schedule 1 and Schedule E, or • copies of the current lease agreement(s) if the borrower can document a qualifying exception (see Partial or No Rental History on Tax Returns below).
No	Purchase	Form 1007 or Form 1025, as applicable, and • copies of the current lease agreement(s). If the property is not currently rented, lease agreements are not required and Form 1007 or Form 1025 may be used. If there is a lease on the property that is being transferred to the borrower, see B2-1.5-03, Legal Requirements B7-2-05, Title Exceptions and Impediments, for additional information.
No	Refinance	Form 1007 or Form 1025, as applicable, and • copies of the current lease agreement(s).

If the borrower is not using any rental income from the subject property to qualify, the gross monthly rent must still be documented for lender reporting purposes.

Documenting Rental Income from Property Other Than the Subject Property

When the borrower owns property – other than the subject property – that is rented, the lender must document the monthly gross (and net) rental income with the borrower's most recent signed federal income tax return that includes Schedule 1 and Schedule E. Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception. See *Reconciling Partial or No Rental History on Tax Returns* below.

Reconciling Partial or No Rental History on Tax Returns

In order for the lender to determine qualifying rental income, the lender must determine whether or not the rental property was in service for the entire tax year or only a portion of the year. In some situations, the lender's analysis may determine that using alternative rental income calculations or using lease agreements to calculate income are more appropriate methods for calculating the qualifying income from rental properties. This policy may be applied to refinances of a subject rental property or to other rental properties owned by the borrower.

If the borrower is able to document (per the table below) that the rental property was not in service the previous tax year, or was in service for only a portion of the previous tax year, the lender may determine qualifying rental income by using

- Schedule E income and expenses, and annualizing the income (or loss) calculation; or
- fully executed lease agreement(s) to determine the gross rental income to be used in the net rental income (or loss) calculation.

If …	Then …
the property was acquired during or subsequent to the most recent tax filing year,	the lender must confirm the purchase date using the settlement statement or other documentation. • If acquired during the year, Schedule E (Fair Rental Days) must confirm a partial year rental income and expenses (depending on when the unit was in service as a rental). • If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for this property.
the rental property was out of service for an extended period,	• Schedule E will reflect the costs for renovation or rehabilitation as repair expenses. Additional documentation may be required to ensure that the expenses support a significant renovation that supports the amount of time that the rental property was out of service. • Schedule E (Fair Rental Days) will confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.
the lender determines that some other situation warrants an exception to use a lease agreement,	the lender must provide an explanation and justification in the loan file.

If the borrower is converting a principal residence to an investment property, see B3-6-06, Qualifying Impact of Other Real Estate Owned, for guidance in using that rental income to qualify the borrower.

Calculating Monthly Qualifying Rental Income (or Loss)

To determine the amount of rental income from the subject property that can be used for qualifying purposes when the borrower is purchasing or refinancing a two- to four-unit principal residence or one- to four-unit investment property, the lender must consider the following:

If the borrower...	Then for qualifying purposes...
• currently owns a principal residence (or has a current housing expense), and • has at least a one-year history of receiving rental income or documented property management experience	there is no restriction on the amount of rental income that can be used.
• currently owns a principal residence (or has a current housing expense), and • has less than one-year history of receiving rental income or documented property management experience	• for a principal residence, rental income in an amount not exceeding PITIA of the subject property can be added to the borrower's gross income, or • for an investment property, rental income can only be used to offset the PITIA of the subject property.
• does not own a principal residence, and • does not have a current housing expense	rental income from the subject property cannot be used.

The lender must establish a history of property management experience by obtaining one of the following:

- The borrower's most recent signed federal income tax return, including Schedules 1 and E. Schedule E should reflect rental income received for any property and Fair Rental Days of 365;
- If the property has been owned for at least one year, but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the federal income tax return; or
- A current signed lease may be used to supplement a federal income tax return if the property was out of service for any time period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1007 or Form 1025 must support the income reflected on the lease.

The lender must document the borrower has at least a one-year history of receiving rental income in accordance with *Documenting Rental Income From Property Other Than the Subject Property above.*

> **Note**: This policy does not apply to HomeReady loans with rental income from an accessory unit.

Method for Calculating the Income

The method for calculating rental income (or loss) for qualifying purposes is dependent upon the documentation that is being used.

Federal Income Tax Returns, Schedule E. When Schedule E is used to calculate qualifying rental income, the lender must add back any listed depreciation, interest, homeowners' association dues, taxes, or insurance *expenses to the borrower's cash flow. Non-recurring property expenses may be added back, if documented accordingly.*

If the property was in service

- for the entire tax year, the rental income must be averaged over 12 months; or
- for less than the full year, the rental income must be averaged over the number of months that the borrower used the property as a rental unit.

See Treatment of the Income (or Loss) below for further instructions.

Lease Agreements or Form 1007 or Form 1025: When current lease agreements or market rents reported on Form 1007 or Form 1025 are used, the lender must calculate the rental income by multiplying the gross monthly rent(s) by 75%. (This is referred to as "Monthly Market Rent" on the Form 1007.) The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses.

See Treatment of the Income (or Loss) below for further instructions.

Treatment of the Income (or Loss)

The amount of monthly qualifying rental income (or loss) that is considered as part of the borrower's total monthly income (or loss) — and its treatment in the calculation of the borrower's total debt-to-income ratio — varies depending on whether the borrower occupies the rental property as their principal residence.

If the rental income relates to the borrower's principal residence:

- The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
- The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.

If the rental income (or loss) relates to a property other than the borrower's principal residence:

- If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income.
- If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
- The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.
- The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.

Offsetting Monthly Obligations for Rental Property Reported through a Partnership or an S Corporation

If the borrower is personally obligated on the mortgage debt (as evidenced by inclusion of the related mortgage(s) on the credit report) and gross rents and related expenses are reported through a partnership or S corporation, the business tax returns may be used to offset the property's PITIA. The steps described below should be followed:

1. Obtain the borrower's business tax returns, including IRS Form 8825 for the most recent year.

2. Evaluate each property listed on Form 8825, as shown below:

- From total gross rents, subtract total expenses. Then add back insurance, mortgage interest, taxes, homeowners' association dues (if applicable), depreciation, and non-recurring property expenses (if documented accordingly).
- Divide by the number of months the property was in service.
- Subtract the entire PITIA (proposed for subject property or actual for real estate owned) to determine the monthly property cash flow.

3. If the resulting net cash flow is **positive**, the lender may exclude the property PITIA from the borrower's monthly obligations when calculating the debt-to-income ratio.

4. If the resulting net cash flow is **negative** (that is, the rental income derived from the investment property is not sufficient to fully offset the property PITIA), the calculated negative amount must be included in the borrower's monthly obligations when calculating the debt-to-income ratio.

In order to include a positive net rental income received through a partnership or an S corporation in the borrower's monthly qualifying income, the lender must evaluate it according to Fannie Mae's guidelines for income received from a partnership or an S corporation. See B3-3.4-01, Analyzing Partnership Returns for a Partnership or LLC and B3-3.4-02, Analyzing Returns for an S Corporation.

Rental Income Calculation Worksheets

Fannie Mae publishes four worksheets that lenders may use to calculate rental income. Use of these worksheets is optional. The worksheets are:

- Rental Income Worksheet – Principal Residence, 2– to 4–unit Property (Form 1037),
- Rental Income Worksheet – Individual Rental Income from Investment Property(s) (up to 4 properties) (Form 1038),
- Rental Income Worksheet – Individual Rental Income from Investment Property(s) (up to 10 properties) (Form 1038A), and
- Rental Income Worksheet – Business Rental Income from Investment Property(s) (Form 1039).

Reporting of Gross Monthly Rent

Eligible rents on the subject property (gross monthly rent) must be reported to Fannie Mae in the loan delivery data for all two- to four-unit principal residence properties and investment properties, regardless of whether the borrower is using rental income to qualify for the loan. If the borrower is using rental income from the subject property to qualify for the loan, the requirements above must be followed to document and calculate the income.

If the borrower is not using any rental income from the subject property to qualify, gross monthly rent must be documented only for lender reporting purposes. The borrower can provide one of the sources listed above, or may provide one of the following sources (listed in order of preference):

- the appraisal report for a one-unit investment property or two- to four-unit property, or *Single-Family Comparable Rent Schedule* (Form 1007), provided neither the applicable appraisal nor Form 1007 is dated 12 months or more prior to the date of the note;
- if the property is not currently rented, the lender may use the opinion of market rents provided by the appraiser; or
- if an appraisal or Form 1007 is not required for the transaction, the lender may rely upon either a signed lease from the borrower or may obtain a statement from the borrower of the gross monthly rent being charged (or to be charged) for the property. The monthly rental amounts must be stated separately for each unit in a two- to four-unit property. The disclosure from the borrower must be in the form of one of the following:
  - a written statement from the borrower, or
  - an addition to the Form 1003.

The lender must retain the documentation in the loan file that was relied upon to determine the amount of eligible rent reported.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-04	May 04, 2022
Announcement SEL-2020-03	June 03, 2020
Announcement SEL-2020-01	February 05, 2020
Announcement SEL-2019-08	October 02, 2019
Announcement SEL-2019-05	June 05, 2019
Announcement-SEL-2018-06	August 07, 2018

B3-3.1-09, Other Sources of Income (12/14/2022)

Introduction

This topic provides information on documenting and qualifying a borrower's income from sources other than wages and salaries, including:

- Documentation Requirements for Current Receipt of Income
- Alimony, Child Support, or Separate Maintenance
- Automobile Allowance
- Boarder Income
- Capital Gains Income
- Disability Income — Long-Term
- Employment Offers or Contracts
- Employment-Related Assets as Qualifying Income
- Foreign Income
- Foster-Care Income
- Housing or Parsonage Allowance
- Interest and Dividends Income
- Mortgage Credit Certificates
- Mortgage Differential Payments Income
- Non-Occupant Borrower Income
- Notes Receivable Income
- Public Assistance Income
- Retirement, Government Annuity, and Pension Income
- Royalty Payment Income
- Schedule K-1 Income
- Social Security Income
- Temporary Leave Income
- Tip Income
- Trust Income
- VA Benefits Income

Documentation Requirements for Current Receipt of Income

The documentation required for each income source is described below. The documentation must support the history of receipt, if applicable, and the amount, frequency, and duration of the income. In addition, evidence of current receipt of the income must be obtained in compliance with the Allowable Age of Credit Documents policy, unless specifically excluded below. See B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns, for additional information.

Current receipt may be documented by various means, depending on the income type. Examples include but are not limited to

- current paystubs,
- bank statements confirming direct deposit,
- canceled checks from the payer's account to the borrower,
- court records, or
- copies of the borrower's bank statements showing the regular deposit of these funds.

> Note: Any income received by the borrower in the form of virtual currency, such as cryptocurrencies, is not eligible to be used to qualify for the loan. For income types that require sufficient remaining assets to establish continuance, those assets cannot be in the form of virtual currency.

Alimony, Child Support, or Separate Maintenance

The following table provides verification requirements for alimony, child support, or separate maintenance.

✓	**Verification of Income From Alimony, Child Support, or Separate Maintenance**
	Document that alimony, child support, or separate maintenance will continue to be paid for at least three years after the date of the mortgage application, as verified by one of the following: • A copy of a divorce decree or separation agreement (if the divorce is not final) that indicates the monthly payment and states the amount of the award and the period of time over which it will be received. **Note**: If a borrower who is separated does not have a separation agreement that specifies alimony or child support payments, the lender should not consider any proposed or voluntary payments as income. • Any other type of written legal agreement or court decree describing the payment terms. • Documentation that verifies any applicable state law that mandates alimony, child support, or separate maintenance payments, which must specify the conditions under which the payments must be made.
	Check for limitations on the continuance of the payments, such as the age of the children for whom the support is being paid or the duration over which alimony is required to be paid.
	Document no less than six months of the borrower's most recent regular receipt of the full payment.

✓	Verification of Income From Alimony, Child Support, or Separate Maintenance
	Review the payment history to determine its suitability as stable qualifying income. To be considered stable income, full, regular, and timely payments must have been received for six months or longer. Income received for less than six months is considered unstable and may not be used to qualify the borrower for the mortgage. In addition, if full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for the purpose of qualifying the borrower.

> **Note**: The lender may include alimony, child support, or separate maintenance as income only if the borrower discloses it on the Form 1003 and requests that it be considered in qualifying for the loan.

Automobile Allowance

For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least two years. The lender must add the full amount of the allowance to the borrower's monthly income, and the full amount of the lease or financing expenditure to the borrower's monthly debt obligations.

Boarder Income

Income from boarders in the borrower's principal residence or second home is not considered acceptable stable income with the exception of the following:

- When a borrower with disabilities receives rental income from a live-in personal assistant, whether or not that individual is a relative of the borrower, the rental payments can be considered as acceptable stable income in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage loan. Personal assistants typically are paid by Medicaid Waiver funds and include room and board, from which rental payments are made to the borrower.
- The HomeReady mortgage eligibility requirements include an additional exception. See Chapter B5-6, HomeReady Mortgage.

The following table provides verification requirements for income from boarders.

✓	Verification of Income from Boarders
	Obtain documentation of the boarder's history of shared residency (such as a copy of a driver's license, bills, bank statements, or W-2 forms) that shows the boarder's address as being the same as the borrower's address.
	Obtain documentation of the boarder's rental payments for the most recent 12 months.

Capital Gains Income

Income received from capital gains is generally a one-time transaction; therefore, it should not be considered as part of the borrower's stable monthly income. However, if the borrower needs to rely on income from capital gains to qualify, the income must be verified in accordance with the following requirements.

✓	Verification of Capital Gains Income
	Document a two-year history of capital gains income by obtaining copies of the borrower's signed federal income tax returns for the most recent two years, including IRS Form 1040, Schedule D.
	Develop an average income from the last two years (according to the Variable Income section of B3-3.1-01, General Income Information), and use the averaged amount as part of the borrower's qualifying income as long as the borrower provides current evidence that they own additional property or assets that can be sold if extra income is needed to make future mortgage loan payments. **Note**: Capital losses identified on IRS Form 1040, Schedule D, do not have to be considered when calculating income or liabilities, even if the losses are recurring. Due to the nature of this income, current receipt of the income is not required to comply with the Allowable Age of Credit Documents policy. However, documentation of the asset ownership must be in compliance with the Allowable Age of Credit Documents policy (see B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns, for additional information).

Disability Income — Long-Term

The following table provides verification requirements for long-term disability income. It does not apply to disability income that is received from the Social Security Administration. See the applicable section below for information on Social Security income.

✓	Verification of Long-Term Disability Income
	Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine • the borrower's current eligibility for the disability benefits, • the amount and frequency of the disability payments, and • if there is a contractually established termination or modification date.

✓	Verification of Long-Term Disability Income
	Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date. If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the amount of the long-term benefits must be used as income to qualify the borrower. For additional information on short-term disability, see Temporary Leave Income below.

Employment Offers or Contracts

If the borrower is scheduled to begin employment under the terms of an employment offer or contract, the lender may deliver the loan in accordance with one of the options outlined below.

✓	Option 1 -- Paystub Obtained Before Loan Delivery
	The lender must obtain an executed copy of the borrower's offer or contract for future employment and anticipated income.
	Prior to delivering the loan, the lender must obtain a paystub from the borrower that includes sufficient information to support the income used to qualify the borrower based on the offer or contract. The paystub must be retained in the mortgage loan file.

✓	Option 2 -- Paystub Not Obtained Before Loan Delivery
	This option is limited to loans that meet the following criteria: • purchase transaction, • principal residence, • one-unit property, • the borrower is not employed by a family member or by an interested party to the transaction, and • the borrower is qualified using only fixed base income.

<table>
<tr><th>✓</th><th colspan="2">Option 2 -- Paystub Not Obtained Before Loan Delivery</th></tr>
<tr><td></td><td colspan="2">The lender must obtain and review the borrower’s offer or contract for future employment. The employment offer or contract must
• clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower;
• clearly identify the terms of employment, including position, type and rate of pay, and start date; and
• be non-contingent. Note: If conditions of employment exist, the lender must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file.
Also note that for a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), the union may provide the executed employment offer or contract for future employment.</td></tr>
<tr><td rowspan="4"></td><td colspan="2">The borrower’s start date must be no earlier than 30 days prior to the note date or no later than 90 days after the note date.
Prior to delivery, the lender must obtain the following documentation depending on the borrower’s employment start date:</td></tr>
<tr><td>If the borrower’s start date is…</td><td>Documentation Required</td></tr>
<tr><td>The note date or no more than 30 days prior to the note date</td><td>• Employment offer or contract; and
• Verbal verification of employment that confirms active employment status</td></tr>
<tr><td>No more than 90 days after the note date</td><td>Employment offer or contract</td></tr>
</table>

✓	Option 2 -- Paystub Not Obtained Before Loan Delivery
	The lender must document, in addition to the amount of reserves required by DU or for the transaction, one of the following: • Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or • Financial resources sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as a full month. Financial resources may include: ∘ financial reserves, and ∘ current income. Current income refers to net income that is currently being received by the borrower (or coborrower), may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract. For this purpose, the lender may use the amount of income the borrower is expected to receive between the note date and the employment start date. If the current income is not being used or is not eligible to be used for qualifying purposes, it can be documented by the lender using income documentation, such as a paystub, but a verification of employment is not required.
	The lender must deliver the loan with Special Feature Code 707.

> **Note**: DU will issue a verification message related to employment offers and contracts if the borrower’s current employment start date is blank or after the date the loan casefile was created.

Employment-Related Assets as Qualifying Income

The following table provides the requirements for employment-related assets that may be used as qualifying income.

✓	Asset Requirements
	Assets used for the calculation of the monthly income stream must be owned individually by the borrower, or the co-owner of the assets must be a co-borrower of the mortgage loan. The documentation must be in compliance with the Allowable Age of Credit Documents policy (see B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns, for additional information).

✓	**Asset Requirements**
	Assets must be liquid and available to the borrower and must be sourced as one of the following: • A non-self-employed severance package or non-self-employed lump sum retirement package (a lump sum distribution) — these funds must be documented with a distribution letter from the employer (Form 1099–R) and deposited to a verified asset account. • For 401(k) or IRA, SEP, Keogh retirement accounts – the borrower must have unrestricted access to the funds in the accounts and can only use the accounts if distribution is not already set up or the distribution amount is not enough to qualify. The account and its asset composition must be documented with the most recent monthly, quarterly, or annual statement.
	If a penalty would apply to a distribution of funds from the account made at the time of calculation, then the amount of such penalty applicable to a complete distribution from the account (after costs for the transaction) must be subtracted to determine the income stream from these assets.
	A borrower must only be considered to have unrestricted access to a 401(k) or IRA, SEP, Keogh retirement account if the borrower has, as of the time of calculation, the unqualified and unlimited right to request a distribution of all funds in the account (regardless of any possible tax withholding or applicable penalty applied to such distribution).
	"Net documented assets" are equal to the sum of eligible assets minus: (a) the amount of the penalty that would apply if the account was completely distributed at the time of calculation; and (b) the amount of funds used for down payment, closing costs, and required reserves.
	Ineligible assets are non-employment-related assets (for example, stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inheritance, and divorce proceeds). Checking and savings accounts are generally not eligible as employment-related assets, unless the source of the balance in a checking or savings account was from an eligible employment-related asset (for example, a severance package or lump sum retirement distribution). Virtual currency is not an eligible asset.

✓	Asset Requirements	
	Example: Calculation of Net Documented Assets	
	IRA (made up of stocks and mutual funds)	$500,000
	Minus 10% of $500,000 ($500,000 x .10) (Assumes a 10% penalty applies for early distribution, which must be levied against any cash being withdrawn for closing the transaction as well as the remaining funds used to calculate the income stream.)	(-) $50,000
	Total eligible documented assets	(=) $450,000
	Minus funds required for closing (down payment, closing costs, reserves)	(-) $100,000
	Net Documented Assets	**(=) $350,000**
	Monthly income calculation ($350,000/360 (or applicable term of loan in months)) See Income Calculation/Payout Stream in table below.	$972.22/month

All of the following loan parameters must be met in order for employment-related assets to be used as qualifying income:

Loan Parameter	Requirement
Maximum LTV, CLTV, and HCLTV Ratio	70% 80% if the owner of the asset(s) being used to qualify is at least 62 years old at the time of closing. If the asset(s) is jointly owned, all owners must be a borrower on the loan and the borrower using the income to qualify must be at least 62 years old at the time of closing.
Loan Purpose	Purchase and limited cash-out refinance only
Occupancy	Principal residence and second home only
Number of Units	As permitted by occupancy type

Loan Parameter	Requirement
Income Calculation/Payout Stream	Divide “Net Documented Assets” by the amortization term of the mortgage loan (in months).

> **Note**: If the mortgage loan does not meet the above parameters, employment-related assets may still be eligible under other standard income guidelines, such as “Interest and Dividends Income,” or “Retirement, Government Annuity, and Pension Income.”

Foreign Income

Foreign income is income that is earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if the following requirements are met.

✓	Verification of Foreign Income
	Copies of signed federal income tax returns for the most recent two years that include foreign income.
	The lender must satisfy the standard documentation requirements based on the source and type of income as outlined in Chapter B3–3, Income Assessment. All documents of a foreign origin must be completed in English, or the originator must provide a translation, attached to each document, and ensure the translation is complete and accurate. **Note**: All income must be translated to U.S. dollars. If the borrower is not a U.S. citizen, refer to B2-2-02, Non–U.S. Citizen Borrower Eligibility Requirements, for additional information.

Foster-Care Income

Income received from a state- or county-sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met.

✓	Verification of Foster-Care Income
	Verify the foster-care income with letters of verification from the organizations providing the income.

✓	Verification of Foster-Care Income
	Document that the borrower has a two-year history of providing foster-care services. If the borrower has not been receiving this type of income for two full years, the income may still be counted as stable income if • the borrower has at least a 12-month history of providing foster-care services, and • the income does not represent more than 30% of the total gross income that is used to qualify for the mortgage loan.

Housing or Parsonage Allowance

A housing or parsonage allowance may be considered qualifying income if there is documentation that it has been received for the most recent 12 months and the allowance is likely to continue for the next three years. The housing allowance may be added to income but may not be used to offset the monthly housing payment.

> **Note**: This requirement does not apply to military quarters' allowance. For information on military housing, refer to B3-3.1-03, Base Pay (Salary or Hourly), Bonus, and Overtime Income.

Interest and Dividends Income

The following table provides verification requirements for interest and dividends income.

✓	Verification of Income From Interest and Dividends
	Verify the borrower's ownership of the assets on which the interest or dividend income was earned. Documentation of asset ownership must be in compliance with the Allowable Age of Credit Documents policy (see B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns, for additional information).
	Document a two-year history of the income, as verified by • copies of the borrower's signed federal income tax returns, or • copies of account statements.
	Develop an average of the income received for the most recent two years. Refer to the Variable Income section of B3-3.1-01, General Income Information, for additional information.
	Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income.

Mortgage Credit Certificates

States and municipalities can issue mortgage credit certificates (MCCs) in place of, or as part of, their authority to issue mortgage revenue bonds. MCCs enable an eligible first-time homebuyer to obtain a mortgage secured by their principal residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments.

When calculating the borrower's DTI ratio, treat the maximum possible MCC income as an addition to the borrower's income, rather than as a reduction to the amount of the borrower's mortgage payment. Use the following calculation when determining the available income:

[(Mortgage Amount) x (Note Rate) x (MCC %)] ÷ 12 = Amount added to borrower's monthly income.

For example, if a borrower obtains a $100,000 mortgage that has a note rate of 7.5% and they are eligible for a 20% credit under the MCC program, the amount that should be added to their monthly income would be $125 ($100,000 x 7.5% x 20% = $1500 ÷ 12 = $125).

The lender must obtain a copy of the MCC and the lender's documented calculation of the adjustment to the borrower's income and include them in the loan file.

For refinance transactions, the lender may allow the MCC to remain in place as long as it obtains confirmation prior to loan closing from the MCC provider that the MCC remains in effect for the new loan. Copies of the MCC documents, including the reissue certification, must be maintained in the new loan file.

> **Note**: Because the MCC is transaction specific, it does not have to comply with the Allowable Age of Credit Documents policy (see B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns, for additional information).

Mortgage Differential Payments Income

An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments.

When calculating the qualifying ratio, the differential payments should be added to the borrower's gross income.

The payments may not be used to directly offset the mortgage payment, even if the employer pays them to the mortgage lender rather than to the borrower.

The following table provides verification requirements for mortgage differential payment income.

✓	**Verification of Income From Mortgage Differential Payments**
	Obtain written verification from the borrower's employer confirming the subsidy and stating the amount and duration of the payments.

✓	Verification of Income From Mortgage Differential Payments
	Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application. If this income is used on a purchase transaction, current receipt is not required to be documented except as verified in the employer letter. For refinance transactions where the income is continuing with the new loan, the recent receipt must be in compliance with the Allowable Age of Credit Documents policy (see B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns, for additional information).

Non-Occupant Borrower Income

DU will consider a non-occupant borrower's income as qualifying income for a principal residence with certain LTV ratio limitations.

For manually underwritten loans, the income from a non-occupant borrower may be considered as acceptable qualifying income. This income can offset certain weaknesses that may be in the occupant borrower's loan application, such as limited income, financial reserves, or limited credit history. However, it may not be used to offset significant or recent instances of major derogatory credit in the occupant borrower's credit history. The occupant borrower must still reasonably demonstrate a willingness to make the mortgage payments and maintain homeownership. If the income from a non-occupant borrower is used for qualifying, the LTV ratios are limited.

See B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers on the Subject Transaction, for information about the maximum LTV, CLTV, and HCLTV ratios that apply when non-occupant borrower income is used for qualifying purposes for both DU and manually underwritten loans.

Notes Receivable Income

The following table provides verification requirements for notes receivable income.

✓	Verification of Income From Notes Receivable
	Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.
	Obtain a copy of the note to establish the amount and length of payment.
	Document regular receipt of income for the most recent 12 months. Payments on a note executed within the past 12 months, regardless of the duration, may not be used as stable income.

Public Assistance Income

The following table provides verification requirements for public assistance income.

✓	Verification of Public Assistance Income
	Document the borrower's receipt of public assistance income with letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit payments.
	Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.

The Housing Choice Voucher Program (more commonly known as Section 8) is also an acceptable source of qualifying income. There is no requirement for the Section 8 voucher payments to have been received for any period of time prior to the date of the mortgage application or for the payments to continue for any period of time from the date of the mortgage application.

✓	Verification of Section 8 Payment Vouchers
	Determine from the public agency that issues the vouchers the monthly payment amount and whether the income is nontaxable. If the income is nontaxable, the lender can develop an adjusted gross income for the borrower. See B3-3.1-01, General Income Information, for additional information.

Income from Unemployment Benefits

Income from unemployment benefits and any income from an employer-initiated action (such as furlough or layoff) are typically short-term in nature and can be considered when qualifying the borrower in the following scenarios:

- The income has been consistently received for at least two years as verified by copies of the signed federal income tax returns that reflect the unemployment income is associated with seasonal employment. See B3-3.1-05, Secondary Employment Income (Second Job and Multiple Jobs) and Seasonal Income, for additional information.
- The income from unemployment benefits can be used in the calculation of financial resources that are required under Option 2 in *Employment Offers and Contracts* above.
- The income from unemployment benefits may be used in qualifying a borrower for a high LTV refinance loan. See B5-7-03, High LTV Refinance Alternative Qualification Path.

Retirement, Government Annuity, and Pension Income

The following table provides verification requirements for retirement, government annuity, and pension income.

✓	Verification of Retirement, Government Annuity, and Pension Income
	Document current receipt of the income, as verified by one or more of the following: • a statement from the organization providing the income, • a copy of retirement award letter or benefit statement, • a copy of financial or bank account statement, • a copy of signed federal income tax return, • an IRS W-2 form, or • an IRS 1099 form.
	If income from a government annuity or a pension account will begin on or before the first payment date, document the income with a benefit statement from the organization providing the income. The statement must specify the income type, amount and frequency of the payment, and include confirmation of the initial start date.
	If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. Eligible retirement account balances (from a 401(k), IRA, or Keogh) may be combined for the purpose of determining whether the three-year continuance requirement is met. **Note:** The borrower must have unrestricted access to the accounts without penalty.

If a borrower's retirement, annuity, or pension income is validated by the DU validation service, DU will issue a message indicating the required documentation. This documentation may differ from the requirements described above. See B3-2-02, DU Validation Service.

Royalty Payment Income

The following table provides verification requirements for royalty income.

✓	Verification of Income From Royalty Payments
	Obtain copies of the • royalty contract, agreement, or statement confirming amount, frequency, and duration of the income; and • borrower's most recent signed federal income tax return, including the related IRS Form 1040, Schedule E.

✓	Verification of Income From Royalty Payments
	Confirm that the borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of three years after the date of the mortgage application.

Refer to the Variable Income section of B3-3.1-01, General Income Information, for additional information.

Schedule K-1 Income

For borrowers who have less than 25% ownership of a partnership, S corporation, or limited liability company (LLC), ordinary income, net rental real estate income, and other net rental income reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 may be used in qualifying the borrower provided the lender can confirm the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

The following table provides verification of income requirements for Schedule K-1 borrowers with less than 25% ownership of a partnership, an S corporation, or an LLC.

✓	Verification of Schedule K-1 Income
	If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. The Schedule K-1 income may then be included in the borrower's cash flow.
	If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then the lender must confirm the business has adequate liquidity to support the withdrawal of earnings. The lender may use discretion in the method used to confirm the business has adequate liquidity.
	If the borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC, these payments can be added to the borrower's cash flow. **Note**: An exception to the two-year requirement of receiving "guaranteed payments to the partner" is if a borrower has recently acquired nominal ownership in a professional services partnership (for example, a medical practice or a law firm) after having an established employment history with the partnership. In this situation, the lender may rely on the borrower's guaranteed compensation. This must be evidenced by the borrower's partnership agreement and further supported by evidence of current year-to-date income.

Documentation Requirements

The borrower must provide the most recent two years of signed individual federal income tax returns and the most recent two years of IRS Schedule K-1.

Social Security Income

The following table provides verification requirements for Social Security income.

✓	Verification of Social Security Income
	Social Security income for retirement or long-term disability that the borrower is drawing from their own account/work record will not have a defined expiration date and must be expected to continue. Social Security income based on another person's account/work record or from the borrower's own work record, but for the benefit of another (such as a dependent) may also be used in qualifying, provided the lender documents a 3-year continuance.
	Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) as shown in the table below.

Documentation Requirements		
Type of Social Security benefit	**Borrower is drawing Social Security benefits from own account/work record**[1]	**Borrower is drawing Social Security benefits from another person’s account/work record or from their own account/work record for the benefit of another**[2]
Retirement	• Social Security Administration's (SSA) Award letter, • SSA-1099, • Most recent signed federal income tax returns (or tax transcripts[3]), or • Proof of current receipt	• SSA Award letter, • Proof of current receipt, and • Three-year continuance[4]

Documentation Requirements		
Disability	• SSA Award letter, • SSA-1099, • Most recent signed federal income tax returns (or tax transcripts[3]), or • Proof of current receipt	• SSA Award letter, • Proof of current receipt, and • Three-year continuance[4]
Survivor benefits	NA	• SSA Award letter, • Proof of current receipt, and • Three-year continuance[4]
Supplement Security Income (SSI)	• SSA Award letter, and • Proof of current receipt	NA

If a borrower's Social Security income is validated by the DU validation service, DU will issue a message indicating the required documentation. This documentation may differ from the requirements described above. See B3-2-02, DU Validation Service.

Temporary Leave Income

Temporary leave from work is generally employee-initiated, short in duration and for reasons including, but not limited to maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or to the borrower's employer. Borrowers on temporary leave may or may not be paid during their absence from work.

> **Note:** Mandatory leave initiated by an employer, such as a furlough or layoff, is not considered temporary leave regardless of an expected return to work date. For income from unemployment benefits received as a result of mandatory leave initiated by an employer, see *Public Assistance Income* above.

If a lender is made aware that a borrower will be on temporary leave at the time of the loan closing and that borrower's income is needed to qualify for the loan, the lender must determine allowable income and confirm employment as described below.

✓	Temporary Leave -- Employment Requirements
	The borrower's employment and income history must meet standard eligibility requirements as described in Section B3–3.1, Employment and Other Sources of Income.

✓	Temporary Leave -- Employment Requirements
	The borrower must provide written confirmation of their intent to return to work.
	The lender must document the borrower's agreed-upon date of return by obtaining, either from the borrower or directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave), documentation evidencing such date that has been produced by the employer or by a designee of the employer. Examples of the documentation may include, but are not limited to, previous correspondence from the employer or designee that specifies the duration of leave or expected return date or a computer printout from an employer or designee's system of record. (This documentation does not have to comply with the Allowable Age of Credit Documents policy.)
	The lender must receive no evidence or information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period.
	The lender must obtain a verbal verification of employment in accordance with B3-3.1-07, Verbal Verification of Employment. If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower employed.
	The lender must verify the borrower's income in accordance with Section B3–3.1, Employment and Other Sources of Income. The lender must obtain • the amount and duration of the borrower's "temporary leave income," which may require multiple documents or sources depending on the type and duration of the leave period; and • the amount of the "regular employment income" the borrower received prior to the temporary leave. Regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus). **Note**: Income verification may be provided by the borrower, by the borrower's employer, or by a third-party employment verification vendor.

Requirements for Calculating Income Used for Qualifying

If the borrower **will** return to work as of the first loan payment date, the lender can consider the borrower's regular employment income in qualifying.

If the borrower will **not** return to work as of the first loan payment date, the lender must use the lesser of the borrower's temporary leave income (if any) or regular employment income. If the borrower's temporary leave income is less than their regular employment income, the lender may supplement the temporary leave income with available liquid financial reserves (see B3-4.1-01, Minimum Reserve Requirements). The following are instructions on how to calculate the “supplemental income”:

Supplemental income amount = available liquid reserves divided by the number of months of supplemental income

- *Available liquid reserves*: subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.
- *Number of months of supplemental income*: the number of months from the first loan payment date to the date the borrower will begin receiving their regular employment income, rounded up to the next whole number.

After determining the supplemental income, the lender must calculate the total qualifying income.

Total qualifying income = supplemental income plus the temporary leave income

The total qualifying income that results may not exceed the borrower's regular employment income.

Example

Regular income amount: $6,000 per month

Temporary leave income: $2,000 per month

Total verified liquid assets: $30,000

Funds needed to complete the transaction: $18,000

Available liquid reserves: $12,000

First payment date: July 1

Date borrower will begin receiving regular employment income: November 1

Supplemental income: $12,000/4 = $3,000

Total qualifying income: $3,000 + $2,000 = $5,000

For loan casefiles underwritten with DU, refer to B3-3.5-01, Income and Employment Documentation for DU, for data entry guidance.

> **Note**: These requirements apply if the lender becomes aware through the employment and income verification process that the borrower is on temporary leave. If a borrower is not currently on temporary leave, the lender must not ask if they intend to take leave in the future.

Tip Income

The following table provides verification requirements for tip income.

✓	Verification of Tip Income
	Obtain the following documents: • a completed *Request for Verification of Employment* (Form 1005 or Form 1005(S)), or • the borrower's recent paystub, and • IRS W-2 forms covering the most recent two-year period or the most recent two years tax returns with IRS Form 4137, Social Security and Medicare Tax on Unreported Tip Income, to verify tips not reported by the employer. See B3-3.1-02, Standards for Employment Documentation, for additional information.
	Tip income may be used to qualify the borrower if the lender verifies that the borrower has received it for the last two years.
	The lender must determine the amount of tip income that may be considered in qualifying the borrower. Refer to the Variable Income section of B3-3.1-01, General Income Information, for additional information.

Trust Income

The following table provides verification requirements for trust income.

✓	Verification of Trust Income
	Confirm the trust income by obtaining a copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of payments.
	Verify that the trust income will continue for at least three years from the date of the mortgage application. Unless this income is received monthly, documentation of current receipt of the income is not required to comply with the Allowable Age of Credit Documents policy.

VA Benefits Income

The following table provides verification requirements for income from VA benefits.

> **Note**: Education benefits are not acceptable income because they are offset by education expenses.

✓	Verification of VA Benefits Income
	Document the borrower’s receipt of VA benefits with a letter or distribution form from the VA.
	Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application. (Verification is not required for VA retirement or long-term disability benefits.)

1 An SSA Award letter may be used to document the income if the borrower is receiving Social Security payments or if the borrower will begin receiving payments on or before the first payment date of the subject mortgage as confirmed by a recently issued award letter.

2 Examples of how a borrower might draw Social Security benefits from another person’s account/work record and use the income for qualifying:

- A borrower may be eligible for benefits from a spouse, ex-spouse, or dependent parents (the benefit is paid to the borrower on behalf of the spouse, etc.); or
- A borrower may use Social Security income received by a dependent (a minor or disabled dependent).

3 If joint tax returns or tax transcripts include income that is not associated with a borrower on the loan transaction, the lender must obtain additional documentation supporting the amount of income from the SSA being used in qualifying, such as the SSA-1099.

4 Confirmation of three-year continuance does not require documentation that provides a defined expiration date and can be assessed by verifying the SSA's requirements related to the specific benefit(s) being paid. For example, if the SSA ties receipt of the benefits to the beneficiary's age, confirmation of a three-year continuance can be met by verifying that the beneficiary's age supports that benefit(s) will continue for at least three years from the date of the loan application.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022

Announcements	Issue Date
Announcement SEL-2022-09	October 05, 2022
Announcement SEL-2022-04	May 04, 2022
Announcement SEL-2021-11	December 15, 2021
Announcement SEL-2021-08	September 01, 2021
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2019-08	October 02, 2019
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-09	December 04, 2018
Announcement SEL-2018-08	October 02, 2018
Announcement SEL-2018-06	August 07, 2018

Section B3-3.2, Self-Employment Income

B3-3.2-01, Underwriting Factors and Documentation for a Self-Employed Borrower (12/14/2022)

Introduction

This topic contains general information on underwriting factors and documentation for a self-employed borrower, including:

Overview

When determining the appropriate qualifying income for a self-employed borrower, it is important to note that business income (specifically from a partnership or S corporation) reported on an individual IRS Form 1040 may not necessarily represent income that has actually been distributed to the borrower. The fundamental exercise, when conducting a self-employment income cash flow analysis, is to determine the amount of income that can be relied on by the borrower in qualifying for their personal mortgage obligation. When underwriting these borrowers, it is important to review business income distributions that have been made or could be made to these borrowers while maintaining the viability of the underlying business. This analysis includes assessing the stability of business income and the ability of the business to continue to generate sufficient income to enable these borrowers to meet their financial obligations.

Factors to Consider for a Self-Employed Borrower

Any individual who has a 25% or greater ownership interest in a business is considered to be self-employed.

The following factors must be analyzed before approving a loan for a self-employed borrower:

- the stability of the borrower's income,
- the location and nature of the borrower's business,
- the demand for the product or service offered by the business,
- the financial strength of the business, and
- the ability of the business to continue generating and distributing sufficient income to enable the borrower to make the payments on the requested loan.

Length of Self-Employment

Fannie Mae generally requires lenders to obtain a two-year history of the borrower's prior earnings as a means of demonstrating the likelihood that the income will continue to be received.

However, a person who has a shorter history of self-employment — 12 to 24 months — may be considered, as long as the borrower's most recent signed federal income tax returns reflect the receipt of such income as the same (or greater) level in a field that provides the same products or services as the current business or in an occupation in which they had similar responsibilities to those undertaken in connection with the current business. In such cases, the lender must give careful consideration to the nature of the borrower's level of experience, and the amount of debt the business has acquired.

Verification of Income

The lender may verify a self-employed borrower's employment and income by obtaining from the borrower copies of their signed federal income tax returns (both individual returns and in some cases, business returns) that were filed with the IRS for the past two years (with all applicable schedules attached).

Alternatively, the lender may use IRS-issued transcripts of the borrower's individual and business federal income tax returns that were filed with the IRS for the most recent two years—as long as the information provided is complete and legible and the transcripts include the information from all of the applicable schedules. (See B3-3.1-06, Requirements and Uses of IRS IVES Request for Transcript of Tax Return Form 4506-C.)

When two years of signed individual federal tax returns are provided, the lender may waive the requirement for business tax returns if:

- the borrower is using personal funds to pay the down payment and closing costs and satisfy applicable reserve requirements,
- the borrower has been self-employed in the same business for at least five years, and
- the borrower's individual tax returns show an increase in self-employment income over the past two years.

For certain loan casefiles DU will issue a message permitting only one year of personal and business tax returns, provided lenders document the income by:

- obtaining signed individual and business federal income tax returns for the most recent year,
- confirming the tax returns reflect at least 12 months of self-employment income, and
- completing Fannie Mae's *Cash Flow Analysis* (Form 1084) or any other type of cash flow analysis form that applies the same principles.

Analysis of Borrower's Personal Income

The lender must prepare a written evaluation of its analysis of a self-employed borrower's personal income, including the business income or loss, reported on the borrower's individual income tax returns. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower. This is not required when a borrower is qualified using only income that is not derived from self-employment and self-employment is a secondary and separate source of income (or loss). Examples of income not derived from self-employment include salary and retirement income.

The lender may use Form 1084 or any other type of cash flow analysis, including automated tools, that applies the same principles as Fannie Mae's form.

A copy of the written analysis must be included as part of any loan application package that the lender submits to Fannie Mae for a loan that is selected for a post-purchase quality control review.

The lender may use a Fannie Mae-approved vendor tool to complete the written analysis and calculate self-employment income. The lender may receive representation and warranty enforcement relief of the calculated amount if certain requirements are met. See A2-2-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU and Fannie Mae's website for the list of Approved Vendor Tools.

Analysis of Borrower's Business Income

When a borrower is relying upon self-employed income to qualify for a loan and the requirements that permit the lender to waive business tax returns are not met, the lender must prepare a written evaluation of its analysis of the borrower's business income. The lender must evaluate the borrower's business through its knowledge of other businesses in the same industry to confirm the stability of the borrower's business income and estimate the potential for long-term earnings.

The purpose of this analysis is to:

- consider the recurring nature of the business income, including identification of pass-through income that may require additional evaluation;
- measure year-to-year trends for gross income, expenses, and taxable income for the business;
- determine (on a yearly or interim basis) the percentage of gross income attributed to expenses and taxable income; and
- determine a trend for the business based on the change in these percentages over time.

The lender may use Fannie Mae's *Comparative Income Analysis* (Form 1088) or any other method of trend analysis that enables it to determine a business's viability, as long as the method used fairly presents the viability of the business and results in a degree of accuracy and a conclusion that is comparable to that which would be reached by use of Form 1088.

A copy of the written analysis and conclusions must be retained in the individual loan file.

Use of Business Assets

When a borrower is using self-employment income to qualify for the loan and also intends to use assets from their business as funds for the down payment, closing costs, and/or financial reserves, the lender must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. To assess the impact, the lender may require a level of documentation greater than what is required to evaluate the borrower's business income (for example, several months of recent business asset statements in order to see cash flow needs and trends over time, or a current balance sheet). This may be due to the amount of time that has elapsed since the most recent tax return filing, or the lender's need for information to perform its analysis. See B3-4.2-02, Depository Accounts, for requirements when self-employment income is not being used to qualify, but business assets are being used for the down payment, closing costs, and/or financial reserves.

Income Verification for Self-Employed Co-Borrowers

When co-borrower income that is derived from self-employment is not being used for qualifying purposes, the lender is not required to document or evaluate the co-borrower's self-employment income (or loss). Any business debt on which the borrower is personally obligated must be included in the total monthly obligations when calculating the debt-to-income ratio.

Verbal Verification of Employment

For requirements regarding verbal VOEs, see B3-3.1-07, Verbal Verification of Employment.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2018-09	December 04, 2018

B3-3.2-02, Business Structures (12/16/2014)

Introduction

This topic contains information on various types of business structures, including:

- Overview
- Sole Proprietorships
- Partnerships
- Limited Liability Companies
- S Corporations
- Corporations

Overview

The legal structure of a business determines the following:

- the way business income or loss is reported to the IRS,
- the taxes that are paid,
- the ability of the business to accumulate capital, and
- the extent of the owner's liability.

There are five principal business structures: sole proprietorships, partnerships, limited liability companies (LLCs), S corporations, and corporations. Knowledge of the structure of a self-employed borrower's business will assist the lender in analyzing and evaluating the stability of the business and the degree of the borrower's involvement.

> **Note**: Refer to B3-3.2-03, IRS Forms Quick Reference, for a summary of the IRS forms referenced in this section and their full titles.

Sole Proprietorships

A sole proprietorship is an unincorporated business that is individually owned and managed. The individual owner has unlimited personal liability for all debts of the business. If the business fails, the borrower not only will have to replace their lost income, but also will be expected to satisfy the outstanding obligations of the business. Since no distinction is made between the owner's personal assets and the assets used in the business, creditors may take either (or both) to satisfy the borrower's business obligations.

The financial success or failure of this type of business depends solely on the owner's ability to obtain capital and to manage the various aspects of the business. Poor management skills or an inability to secure capital to keep the business running will compromise the continuance of the borrower's business (and income). The owner's death terminates the business and may cause the assets to be placed into probate, thus delaying the disposition of the assets to creditors and heirs.

The income, expenses, and taxable profits of a sole proprietorship are reported on the owner's IRS Form 1040, Schedule C, and are taxed at the tax rates that apply to individuals. (See B3-3.3-03, Income or Loss Reported on IRS Form 1040, Schedule C.)

When evaluating a sole proprietorship, the lender must:

- review the owner's most recent signed federal income tax returns to ensure that there is sufficient and stable cash flow to support both the business and the payments for the requested mortgage, and
- determine whether the business can accommodate the withdrawal of assets or revenues should the borrower need them to pay the mortgage payment and/or other personal expenses.

Partnerships

A partnership is an arrangement between two or more individuals who have pooled their assets and skills to form a business and who will share profits and losses according to predetermined proportions that are set out in the partnership agreement. A partnership may be either a general partnership or a limited partnership:

- **General Partnership** — Under a general partnership, each partner has responsibility for running the business, is personally liable for the debts of the entire business, and is responsible for the actions of every other partner (unless otherwise specified in the partnership agreement). A general partnership is dissolved immediately on the death, withdrawal, or insolvency of any of the partners, although the personal liability to partnership creditors exists even after the partnership is dissolved. However, the partnership's assets will first be applied to the creditors of the business and the partners' individual assets will be first be applied to their personal creditors, with any surplus in a partner's personal assets then being applied to the remaining business creditors.
- **Limited Partnership** — Under a limited partnership, a limited partner has limited liability based on the amount they invested in the partnership, does not typically participate in the management and operation of the business, and has limited decision-making ability. A limited partnership will have at least one general partner who manages the business and is personally liable for the debts of the entire business. A limited partner's death, withdrawal, or insolvency does not dissolve the partnership. Because limited partnerships often are formed as tax shelters, it is more likely that IRS Form 1065, Schedule K-1, will reflect a loss instead of income. In such cases, the borrower's ability to deduct the loss will be limited by the "at risk" amount of their limited partnership interest (and will probably be subject to passive loss limitations).

The partnership must report its profit or loss on IRS Form 1065 and each partner's share of the profit or loss on IRS Form 1065, Schedule K-1; however, the partnership pays no tax on the partnership income.

Each partner uses the information from IRS Form 1065, Schedule K-1, to report their share of the partnership's net profit or loss (and special deductions and credits) on their IRS Form 1040—whether or not the partner receives a cash distribution from the partnership. Individual partners pay taxes on their proportionate share of the net partnership income at their individual tax rates.

To quantify the level of the borrower's financial risk, the lender must:

- determine whether the borrower has guaranteed any loans obtained by the partnership (other than loans that are considered as nonrecourse debt or qualified nonrecourse debt),
- determine if the borrower received a distribution from the partnership, and
- determine the borrower's share of non-cash expenses that can be added back to the cash flow of the partnership business.

For additional information, see the following:

- B3-3.3-07, Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1
- B3-3.4-01, Analyzing Partnership Returns for a Partnership or LLC

Limited Liability Companies

A limited liability company (LLC) is a hybrid business structure that is designed to offer its member-owners the tax efficiencies of a partnership and the limited liability advantages of a corporation. The member-owners of the LLC (or their assigned managers) can sign contracts, sell assets, and make other important business decisions. The LLC operating agreement may set out specific divisions of power among the member-owners (or managers). Although the member-owners generally have limited liability, there may be some instances in which they are required to personally guarantee some of the loans that the LLC obtains. Profits from the operation of the LLC may be distributed beyond the pool of member-owners, such as by offering profit distributions to managers.

The LLC may report its profit or loss on IRS Form 1065 or IRS Form 1120S with each member-owner's share of the profit or loss on Schedule K-1, IRS Form 1065 or IRS Form 1120S; however, the LLC pays no tax on its income. Each member-owner uses the information from Schedule K-1 to report their share of the LLC's net profit or loss (and special deductions and credits) on their individual IRS Form 1040, whether or not the member-owner receives a cash distribution from the LLC. Individual member-owners pay taxes on their proportionate share of the LLC's net income at their individual tax rates.

The lender must evaluate the LLC using IRS Form 1065 or IRS Form 1120S along with the Schedule K-1, as applicable, to determine the following:

- whether the borrower actually received a cash distribution from the LLC, since profits may or may not be distributed to the individual member-owners; and
- whether the borrower has guaranteed any loans obtained by the LLC (other than loans that are considered as nonrecourse debt or qualified nonrecourse debt).

For additional information, see the following:

- B3-3.3-07, Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1
- B3-3.4-01, Analyzing Partnership Returns for a Partnership or LLC

S Corporations

An S corporation is a legal entity that has a limited number of stockholders and elects not to be taxed as a regular corporation. Business gains and losses are passed on to the stockholders. An S corporation has many of the characteristics of a partnership. Stockholders are taxed at their individual tax rates for their proportionate share of ordinary income, capital gains, and other taxable items.

The ordinary income for an S corporation is reported on IRS Form 1120S, with each shareholder's share of the income reported on IRS Form 1120S, Schedule K-1.

Because this income from the distribution of corporate earnings may or may not be distributed to the individual shareholders, the lender must determine if the borrower received a cash distribution from the S corporation.

The cash flow of an S corporation is otherwise evaluated similarly to that of a regular corporation.

For additional information, see the following:

- B3-3.3-07, Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1
- B3-3.4-02, Analyzing Returns for an S Corporation

Corporations

A corporation is a state-chartered legal entity that exists separately and distinctly from its owners (who are called stockholders or shareholders). It is the most flexible form of business organization for purposes of obtaining capital. A corporation can sue; be sued; hold, convey, or receive property; enter into contracts under its own name; and does not dissolve when its ownership changes. There are two types of corporations—publicly owned (widely held) corporations and privately owned (closely held) corporations. Because more than 50% of the outstanding stock of a privately owned corporation is owned directly or indirectly by no more than five people, the corporation has little or no access to public funds and must raise capital through institutional financing.

Although legal control of the corporation rests with its stockholders, they typically are not responsible for the day-to-day operations of the business since they elect a board of directors to manage the corporation and delegate responsibility for the day-to-day operations to the directors and officers of the company. The distribution of profits earned by the business is determined by the corporation's board of directors or other entities that have a significant financial interest in the business. However, the profits usually are filtered down to the owners in the form of dividends. Since a stockholder is not personally liable for the debts of the corporation, losses are limited to their individual investment in the corporation's stock.

Corporations must report income and losses on IRS Form 1120 and pay taxes on the net income. The corporation distributes profits to its shareholders in the form of dividends, which it reports on IRS Form 1099-DIV. The shareholders must then report the dividends as income on their individual IRS Form 1040.

For additional information, see:

- B3-3.3-07, Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1
- B3-3.4-03, Analyzing Returns for a Corporation

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-3.2-03, IRS Forms Quick Reference (12/16/2020)

Introduction

This topic provides information on IRS tax forms.

- IRS Forms Quick Reference

IRS Forms Quick Reference

The following table lists the IRS forms referenced in this section and provides the full titles.

IRS Form Number	Title
Form 990	*Return of Organization Exempt From Income Tax Form*
Form 1040	*U.S. Individual Income Tax Return*
Form 1040, Schedule B	*Interest and Ordinary Dividends*
Form 1040, Schedule C	*Profit or Loss from Business (Sole Proprietorship)*
Form 1040, Schedule D	*Capital Gains and Losses*
Form 1040, Schedule E	*Supplemental Income and Loss*
Form 1040, Schedule F	*Profit or Loss From Farming*
Form 1065	*U.S. Return of Partnership Income*
Form 1065, Schedule K-1	*Partner’s Share of Income, Deductions, Credits, etc.*
Form 1099-A	*Acquisition or Abandonment of Secured Property*
Form 1099-C	*Cancellation of Debt*
Form 1099-DIV	*Dividends and Distributions*
Form 1099-MISC	*Miscellaneous Income*
Form 1120	*U.S. Corporation Income Tax Return*
Form 1120-S	*U.S. Income Tax Return for an S Corporation*
Form 1120-S, Schedule K-1	*Shareholder’s Share of Income, Deductions, Credits, etc.*
Form 2106	*Employee Business Expenses*

IRS Form Number	Title
Form 4506-C	*IVES Request for Transcript of Tax Return*
Form 4797	*Sales of Business Property*
Form 6252	*Installment Sale Income*
Form 8825	*Rental Real Estate Income and Expenses of a Partnership or an S Corporation*
Form W-4	*Employee's Withholding Allowance Certificate*

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-07	December 16, 2020

Section B3-3.3, Self-Employment Documentation Requirements for an Individual

B3-3.3-01, General Information on Analyzing Individual Tax Returns (06/05/2019)

Introduction

This topic contains general information on analyzing individual tax returns.

- Analyzing Individual Tax Returns

Analyzing Individual Tax Returns

In analyzing a self-employed borrower's personal income, the lender should focus on earnings trends and the actual sources of the income, not just on the total amount of the income. The lender must confirm the stability and likelihood of continuance for each source of income that the borrower reports on their IRS Form 1040. The lender should not include any income that does not appear to be stable or likely to continue. The lender should, however, consider all recurring income that the borrower can expect to continue receiving over time.

Income may be considered as recurring if the loan application package does not include any specific indication of an upcoming change in the borrower's employment or income, the borrower's employment history has no gaps or other significant fluctuations in income, and any income received under a contractual agreement (other than an "at will" contract) will continue to be received for at least three years.

Examples of recurring income include:

- regular salaries or wages,
- bonus or commission income that has been received on a consistent basis,
- interest income from long-term investments that are not being liquidated in connection with the mortgage transaction, and
- earnings from the operation of the borrower's business.

Any nonrecurring loss (such as an extraordinary one-time expense) should not be included in the cash flow analysis; therefore, in developing the borrower's qualifying income, the lender should adjust the borrower's cash flow by the amount of any nonrecurring loss.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-05	June 05, 2019

B3-3.3-02, Income Reported on IRS Form 1040 (05/15/2012)

Introduction

This topic contains information on income reported on IRS Form 1040, including:

Overview

To get an accurate picture of the borrower's cash flow, the lender will need to make certain adjustments to some of the income (or loss) that the borrower reported on IRS Form 1040 since it may not be recurring income. The lender also may need to further analyze the accompanying tax schedules or supplemental tax forms.

This section describes how the lender should treat various components of the income (or loss) that a self-employed borrower reported on IRS Form 1040 in its cash flow analysis.

> **Note**: Eligibility criteria for accepting income from specific non-business sources is generally the same as that for salaried or commissioned borrowers (see B3-3.1-01, General Income Information).

Wages, Salary, and Tips

If an amount is shown for wages, salary, or tips for a self-employed borrower, it may mean:

- the borrower operates as a corporation and pays himself or herself a salary or
- the borrower's spouse is employed and receives a salary (either from the borrower's business or from another employer).

If the income relates to the borrower's spouse who is employed by another company and the income will be used in qualifying for the mortgage, the spouse's income must be verified directly with their employer since it may be more appropriate to use the spouse's current earnings in underwriting the mortgage. Any income that is based on current earnings or that will not be used for qualifying purposes should be deducted from the borrower's cash flow.

Interest and Dividend Income

The taxable interest and dividend income that is reported on IRS Form 1040, Schedule B, may be counted as stable income only if it has been received for the past two years. However, the income cannot be counted if the borrower is using the interest-bearing or dividend-producing asset as the source of the down payment or closing costs.

Any taxable interest or dividend income that is not recurring must be deducted from the borrower's cash flow.

Tax-exempt interest income may be counted as stable income only if it has been received for the past two years and is expected to continue. If so, this income can be added to the borrower's cash flow.

State and Local Tax Refunds

Taxable state and local tax refunds, credits, or offsets of state and local income taxes should not be used as qualifying income since the income was accounted for in the previous year's tax returns. Therefore, the borrower's cash flow must be adjusted accordingly.

Alimony Received

Alimony may be accepted as qualifying income if it meets the requirements described in B3-3.1-09, Other Sources of Income. Any reported alimony received that is determined to be nonrecurring must be deducted from the borrower's total income reported on IRS Form 1040.

IRA Distributions, Pensions and Annuities, and Social Security Benefits

Income received from IRA distributions, pensions, annuities, and Social Security benefits may be accepted as qualifying income. See B3-3.1-09, Other Sources of Income, for specific requirements.

The nontaxable portion of such recurring income must be added to the borrower's cash flow. The tax-exempt portion of income from these sources may be increased to reflect the tax savings, as described in B3-3.1-01, General Income Information. If the income from these sources is determined to be nonrecurring, the income must be deducted from the borrower's cash flow.

Unemployment Compensation

Unemployment compensation may be considered as acceptable qualifying income if it meets the requirements described in B3-3.1-09, Other Sources of Income. Any reported unemployment compensation that is determined to be nonrecurring must be deducted from the borrower's cash flow.

Other Income (or Loss)

If the borrower reported income from other sources, the lender must verify that the income is an eligible source for qualifying purposes per the requirements described in B3-3.1-09, Other Sources of Income, for the applicable income source. Income that is determined to be nonrecurring or ineligible for qualifying purposes must be deducted from the borrower's cash flow. If the borrower reported any nonrecurring losses, the borrower's cash flow should be increased by the amount of the losses.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-3.3-03, Income or Loss Reported on IRS Form 1040, Schedule C (04/01/2009)

Introduction

This topic contains information on income or loss reported on IRS Form 1040, Schedule C, including:

- Income (or Loss) from a Sole Proprietorship
- Recurring vs. Non-recurring Income and Expenses

Income (or Loss) from a Sole Proprietorship

The income (or loss) from a borrower's sole proprietorship is calculated on IRS Form 1040, Schedule C, then transferred to IRS Form 1040.

The lender may need to make certain adjustments to the net profit or loss shown on Schedule C to arrive at the borrower's cash flow. For example, Schedule C may include income that was not obtained from the profits of the borrower's business. If the lender determines that such income is not recurring, it should adjust the borrower's cash flow by deducting the nonrecurring income.

See B3-3.2-02, Business Structures, for more information on sole proprietorships.

Recurring vs. Non-recurring Income and Expenses

The lender must determine whether income is recurring or non-recurring.

Non-recurring income must be deducted in the cash flow analysis, including any exclusion for meals and entertainment expenses reported by the borrower on Schedule C.

The following recurring items claimed by the borrower on Schedule C must be added back to the cash flow analysis: depreciation, depletion, business use of a home, amortization, and casualty losses.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-3.3-04, Income or Loss Reported on IRS Form 1040, Schedule D (11/13/2012)

Introduction

This topic contains information on income or loss reported on IRS Form 1040, Schedule D, including:

- Overview
- Calculating Borrower Cash Flow from Schedule D and Required Documentation

Overview

IRS Form 1040, Schedule D, is used to report capital gains and losses. Income received from a capital gain is generally a one-time transaction; therefore, it should not usually be considered part of the borrower's stable monthly income.

Calculating Borrower Cash Flow from Schedule D and Required Documentation

If the income calculated on the Schedule D shows that the borrower has realized capital gains for the last two years, as may be the case when the borrower's business has a constant turnover of assets that produces regular gains, the recurring gains can be considered in determining the borrower's stable monthly income. In this case, the borrower must provide evidence of ownership of additional property or assets that can be sold if extra income is needed to make future mortgage payments.

The table below provides the requirements for calculating cash flow from Schedule D and the associated required documentation.

If …	Then …
recurring capital gains relate to the sale of business property,	lenders must obtain a copy of the applicable Sale of Business Property (IRS Form 4797) to support the recurring nature of the capital gains.
Schedule D includes principal payments on an installment sales contract,	lenders must obtain a copy of • the Installment Sale Income (IRS Form 6252), and • the note or contract to verify that the borrower will continue to receive the payments for at least three years.

If ...	Then ...
the capital gain on the principal payment and interest income from an installment sales contract is determined to be nonrecurring,	the amount must be deducted from the borrower's cash flow.

> **Note**: Capital losses identified on IRS Form 1040, Schedule D, do not have to be considered when calculating income or liabilities, even if the losses are recurring.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-3.3-05, Income or Loss Reported on IRS Form 1040, Schedule E (09/30/2014)

Introduction

This topic contains information on income or loss reported on IRS Form 1040, Schedule E, including:

- Overview
- Royalty Income
- Rental Income

Overview

Income received from rents, royalties, and distributions from partnerships, corporations, estates, trusts, etc., is calculated on IRS Form 1040, Schedule E, and transferred to IRS Form 1040.

Rather than using Schedule E for income related to distributions from partnerships, corporations, estates, and trusts, the lender should rely on Schedule K-1 (see B3-3.3-07, Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1).

Royalty Income

Schedule E should be used to determine the supplemental income to use for royalties. The lender must include the total amount of royalty payments received, and must document the borrower's receipt of royalty income for 12 months and the likelihood of continued receipt of such income for at least three years (see B3-3.1-09, Other

Sources of Income)

Rental Income

If rental income is reported on Schedule E, only the rental income that relates to properties shown on the Schedule of Real Estate Owned on the borrower's loan application should be included.

All regular and ongoing expenses for the properties, such as maintenance, advertising, management fees, utilities, homeowners' association dues, and supply costs, should be subtracted from the borrower's cash flow.

Depending on the approach used to calculate cash flow, adjustments will need to be made for depreciation and any one-time extraordinary expenses, such as the costs of repairing damage that resulted from a natural disaster.

In most situations, the full amount of the mortgage payment for a rental property will be factored into the net rental income calculation, but it may also be counted as part of the liabilities that are considered in the calculation of the borrower's total debt-to-income ratio. Therefore, the lender must add back any portion of the mortgage payment, including interest, taxes, and insurance, necessary to avoid double counting of these expenses.

The lender must pay particular attention to the effect of "passive loss" limitations or prior "carryovers" related to the borrower's rental properties and, depending on the method it uses for the cash flow analysis, make any special adjustments necessary to account for them.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-3.3-06, Income or Loss Reported on IRS Form 1040, Schedule F (04/01/2009)

Introduction

This topic contains information on income or loss reported on IRS Form 1040, Schedule F.

- Income or Loss Reported on IRS Form 1040, Schedule F

Income or Loss Reported on IRS Form 1040, Schedule F

Income received from farming is calculated on IRS Form 1040, Schedule F, and transferred to IRS Form 1040.

> **Note**: Other income on Schedule F may represent income that is not obtained from the borrower's farming operations.

The lender may need to make certain adjustments to the net income amount that was transferred to IRS Form 1040. For example, certain federal agricultural program payments, co-op distributions, and insurance or loan proceeds are not fully taxable, so they would not be reported on IRS Form 1040. These income sources may or may not be stable or continuous and could be a one-time occurrence.

If the lender verifies that the net income amounts that were transferred to IRS Form 1040 are stable, consistent, and continuing, the borrower's cash flow must be adjusted by the nontaxable portion of any recurring income from these sources. Otherwise, the income must be deducted from the borrower's cash flow.

The lender can adjust the borrower's cash flow by adding the amount of any deductions the borrower claimed on Schedule F for depreciation, amortization, casualty loss, depletion, or business use of their home.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-3.3-07, Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 (06/28/2016)

Introduction

This topic contains information on income or loss reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1, including:

- Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1
- Documentation Requirements

Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1

The version of Schedule K-1 that is utilized to report a borrower's share of income (or loss) is based on how the business reports earnings for tax purposes:

- partnership — reported on IRS Form 1065, Schedule K-1;
- S corporation — reported on IRS Form 1120S, Schedule K-1; and
- LLC — reported on either IRS Form 1065 or IRS Form 1120S, Schedule K-1, depending on how the federal income tax returns are filed for the LLC.

The lender must use caution when including income that the borrower draws from the borrower's partnership or

S corporation as qualifying income. Ordinary income, net rental real estate income, and other net rental income reported on Schedule K-1 may be included in the borrower's cash flow provided the lender can confirm that the business has adequate liquidity to support the withdrawal of earnings, as described below:

- If the borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC, these payments can be added to the borrower's cash flow.
- If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. But if the Schedule K-1 does not reflect a documented, stable history, then the lender must confirm adequate business liquidity, as discussed below.

If business tax returns are required, then the lender must consider the type of business structure and analyze the business returns, according to the requirements described in B3-3.2-01, Underwriting Factors and Documentation for a Self-Employed Borrower.

The lender may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the lender may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

It is important that the lender select a business liquidity formula based on how the business operates. For example:

- The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

  Quick Ratio = (current assets — inventory) ÷ current liabilities
- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.

  Current Ratio = current assets ÷ current liabilities

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

Documentation Requirements

The following table describes the documentation that the borrower must provide. The borrower must select one item from each row.

✓	**Documentation Requirements**
	• the most recent two years of signed individual federal income tax returns—IRS Form 1040; or • the most recent one year of signed individual federal income tax returns, if permitted by DU

✓	Documentation Requirements
	• the most recent two years of IRS Schedule K-1; or • the most recent year IRS Schedule K-1, if permitted by DU
	• the most recent two years of business federal income tax returns (IRS Form 1065 or IRS Form 1120S), unless the requirements to waive business tax returns have been met; or • the most recent one year of business federal income tax returns, if permitted by DU

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Section B3-3.4, Self-Employment Documentation Requirements for a Business

B3-3.4-01, Analyzing Partnership Returns for a Partnership or LLC (06/05/2019)

Introduction

This topic contains information on analyzing partnership returns for a partnership or LLC, including:

- Overview
- Evaluating the Business Income
- Borrower’s Proportionate Share of Income or Loss
- Adjustments to Business Cash Flow
- Income from Partnerships, LLCs, Estates, and Trusts

Overview

Partnerships and some LLCs use IRS Form 1065 for filing informational federal income tax returns for the partnership or LLC. The partner’s or member-owner’s share of income (or loss) is carried over to IRS Form 1040, Schedule E. See B3-3.2-02, Business Structures, for more information on partnerships and LLCs.

A borrower with an ownership interest in a partnership or LLC may receive income in the form of wages or other compensation from the partnership or LLC in addition to the borrower's proportionate share of income (or loss) reported on the Schedule K-1.

Evaluating the Business Income

When the borrower has 25% or more ownership interest in the business and business tax returns are required, the lender must perform a business cash flow analysis and evaluate the overall financial position of the borrower's business to determine whether

- income is stable and consistent, and
- sales and earnings trends are positive.

If the business does not meet these standards, business income cannot be used to qualify the borrower.

Borrower's Proportionate Share of Income or Loss

The borrower's proportionate share of income or loss is based on the borrower's partnership percentage of Ending Capital in the business as shown on IRS Form 1065, Schedule K-1.

The lender can only consider the borrower's proportionate share of the business income or loss after making the adjustments to the business cash flow analysis discussed below.

Adjustments to Business Cash Flow

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

- travel and meals exclusion,
- other reported income that is not consistent and recurring, and
- the total amount of obligations on mortgages, notes, or bonds that are payable in less than one year.

These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

Income from Partnerships, LLCs, Estates, and Trusts

Income from partnerships, LLCs, estates, or trusts can only be considered if the lender obtains documentation, such as the Schedule K-1, verifying that

- the income was actually distributed to the borrower, or
- the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides

this confirmation, no further documentation of business liquidity is required.

The lender may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the lender may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

It is important that the lender select a business liquidity formula based on how the business operates. For example:

- The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

  Quick Ratio = (current assets — inventory) ÷ current liabilities
- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.

  Current Ratio = current assets ÷ current liabilities

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-05	June 05, 2019

B3-3.4-02, Analyzing Returns for an S Corporation (06/05/2019)

Introduction

This topic contains information on analyzing returns for an S corporation, including:

- Overview
- Evaluating the Business Income
- Borrower's Proportionate Share of Income or Loss
- Adjustments to Business Cash Flow

Overview

S corporations and some LLCs pass gains and losses on to their shareholders, who are then taxed at the tax rates for individuals. S corporations and some LLCs use IRS Form 1120S, Schedule K-1, for filing federal income tax returns for the corporation. The shareholder's share of income or loss is carried over to IRS Form 1040, Schedule E. See B3-3.2-02, Business Structures, for more information on S corporations. A borrower with an ownership interest in an S corporation or LLC may receive income in the form of wages or dividends in addition to their proportionate share of business income (or loss) reported on Schedule K-1.

Evaluating the Business Income

When the borrower has 25% or more ownership interest in the business, the lender must perform a business cash flow analysis in order to evaluate the overall financial position of the business and confirm

- the business income is stable and consistent, and
- the sales and earnings trends are positive.

If the business does not meet these standards, business income cannot be used to qualify the borrower.

Borrower's Proportionate Share of Income or Loss

The borrower's proportionate share of income or loss is based on the borrower's (shareholder) percentage of stock ownership in the business for the tax year as shown on IRS Form 1120S, Schedule K-1. The cash flow analysis should consider only the borrower's proportionate share of the business income (or loss), taking into account any adjustments to the business income that are discussed below. Business income may only be used to qualify the borrower if the lender obtains documentation verifying that

- the income was actually distributed to the borrower, or
- the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

The lender may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the lender may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

It is important that the lender select a business liquidity formula based on how the business operates. For example:

- The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

  Quick Ratio = (current assets — inventory) ÷ current liabilities
- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not

relying on inventory to generate income.

Current Ratio = current assets ÷ current liabilities

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

Adjustments to Business Cash Flow

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

- travel and meals exclusion,
- other reported income that is not consistent and recurring, and
- the total amount of obligations on mortgages, notes, or bonds that are payable in less than one year.

These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-05	June 05, 2019

B3-3.4-03, Analyzing Returns for a Corporation (06/05/2019)

Introduction

This topic contains information on analyzing returns for corporations, including:

- Overview
- Corporate Fiscal Year
- Determining the Corporation's Financial Position
- Borrower's Share of Income or Loss

- Adjustments to Cash Flow

Overview

Corporations use IRS Form 1120 to report their taxes. See B3-3.2-02, Business Structures, for more information on corporations.

Corporate Fiscal Year

When funds from a corporation that operates on a fiscal year that is different from the calendar year are used in qualifying a self-employed borrower, the lender must make time adjustments to relate the corporate income to the borrower's individual tax return, which is on a calendar year basis.

Determining the Corporation's Financial Position

After determining the income available to the borrower for qualifying purposes, the lender must evaluate the overall financial position of the corporation. Ordinary income from the corporation can be used to qualify the borrower only if the following requirements are met:

- the business income must be stable and consistent,
- the sales and earnings trends must be positive, and
- the business must have adequate liquidity to support the borrower's withdrawals of cash without having severe negative effects.

Borrower's Share of Income or Loss

The cash flow analysis can only consider the borrower's share of the business income or loss, taking into consideration adjustments to business income provided below. Earnings may not be used unless the borrower owns 100% of the business.

Adjustments to Cash Flow

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, net operating losses, and other special deductions that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

- travel and meals exclusion,
- tax liability and amount of any dividends, and
- the total amount of obligations on mortgages, notes, or bonds that are payable in less than one year. These adjustments are not required if there is evidence that these obligations roll over regularly and/or

the business has sufficient liquid assets to cover them.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-05	June 05, 2019

B3-3.4-04, Analyzing Profit and Loss Statements (04/01/2009)

Introduction

This topic contains information on analyzing profit and loss statements.

- Analyzing Profit and Loss Statements

Analyzing Profit and Loss Statements

The lender may use a profit and loss statement—audited or unaudited—for a self-employed borrower's business to support its determination of the stability or continuance of the borrower's income. A typical profit and loss statement has a format similar to IRS Form 1040, Schedule C.

A year-to-date profit and loss statement is not required for most businesses, but if the borrower's loan application is dated more than 120 days after the end of the business's tax year, the lender may choose to require this document if it believes that it is needed to support its determination of the stability or continuance of the borrower's income.

If the lender did not count the borrower's year-to-date salary or draws in determining the borrower's qualifying income, it may add them to the net profit shown on the profit and loss statement as well as adding any of the allowable adjustments it used in analyzing the tax returns for the business, such as nonrecurring income and expenses, depreciation, and depletion.

However, only the borrower's proportionate share of these items may be considered in determining the amount of income from the business that the borrower can use for qualifying purposes.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Section B3-3.5, DU Requirements for Income Assessment

B3-3.5-01, Income and Employment Documentation for DU (06/01/2022)

Introduction

This topic contains information on general income and employment documentation requirements for DU, including:

General Income Documentation Requirements

DU indicates the minimum income verification documentation required to process a loan application. This level of documentation may not be adequate for every borrower and every situation. The lender must determine whether additional documentation is warranted. If the lender is unable to determine the stability of the borrower's income on the basis of the available documentation, the income must be removed and the loan resubmitted to DU.

The standards for employment documentation are the same for DU loan casefiles as they are for manually underwritten loans. For example, paystubs, W-2s, and tax returns must meet the same requirements without regard to the underwriting method. The following information describes DU considerations for specific types of income. For additional information, see B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns, and Section B3–3.1, Employment and Other Sources of Income.

> **Note**: Only actual employer information should be entered in the employment section of the loan application. For example, do not enter “retired” or “homemaker” as the borrower’s current employer.

Reduced Income Documentation Requirements for High LTV Refinance Loans

DU offers a reduced level of income documentation for high LTV refinance loans. Refer to B5-7-02, High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan, for additional information.

Alternative Documentation Requirements for Income Validated by the DU Validation Service

When a component of the loan file is validated by the DU validation service, DU will issue a message indicating the required documentation. This documentation requirement may differ from those described below. See B3-2-02, DU Validation Service.

Base Pay (Salary or Hourly) Income

DU will require the following:

- a completed *Request for Verification of Employment* (Form 1005),
- the borrower's recent paystub and IRS W-2 forms covering the most recent one-year period, or
- the borrower's recent Leave and Earnings Statement (LES) for military income and entitlements.

Bonus and Overtime Income

DU will require the following:

- a completed Form 1005, or
- the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.

Commission Income

DU will require the following:

- a completed Form 1005, or
- the borrower’s recent paystub and IRS W-2 forms covering the most recent two-year period.

Secondary Employment Income (Second Job and Multiple Jobs)

When the second job income is not from self-employment, DU will require the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.

Self-Employment Income

If the borrower is the business owner or is self-employed, the business owner/self-employed indicator must be checked in the loan application along with the percentage of ownership. DU will consider the borrower self-employed if the ownership share is 25% or more, or if the ownership share is not completed but the business owner/self-employed indicator is checked. If the ownership share is 25% or more, the income is entered in Monthly Income (or Loss) based on the lender's calculation of net income (or loss) from self-employment. If the ownership share is less than 25%, the income is entered in Gross Monthly Income (base, bonus, overtime, etc.). Schedule K-1 income for these borrowers should be entered as Other in Gross Monthly Income.

For DU loan casefiles where two years of the most recent signed personal and two years of the most recent signed business federal income tax returns are required, business tax returns do not have to be provided unless the business is a corporation, an S corporation, a limited liability company, or a partnership. Under certain conditions, the requirements for business tax returns may be waived.

For certain loan casefiles, DU will issue a message permitting only one year of personal and business tax returns, provided lenders document the income by

- obtaining signed individual and business federal income tax returns for the most recent year,
- confirming the tax returns reflect at least 12 months of self-employment income, and
- completing Fannie Mae's *Cash Flow Analysis* (Form 1084) or any other type of cash flow analysis form that applies the same principles.

Refer to B3-3.2-01, Underwriting Factors and Documentation for a Self-Employed Borrower for additional information about waiving the business return requirement and for required forms and calculations. A copy of the written analysis must be included in the permanent loan file.

Verbal Verification of Employment

A verbal VOE is required for each employer. For requirements regarding verbal VOEs, see B3-3.1-07, Verbal Verification of Employment.

Other Income

Other income must be entered in the loan application. DU supports a number of other income types. Income types not available in DU must be entered as "Other" income.

Refer to B3-3.1-09, Other Sources of Income, B3-3.1-05, Secondary Employment Income (Second Job and Multiple Jobs) and Seasonal Income, and B5-6-02, HomeReady Mortgage Underwriting Methods and

Requirements, for information on eligibility and verification of other sources of income.

Temporary Leave Income

When income from temporary leave is being used to qualify for the mortgage loan, the lender must enter the appropriate qualifying income amount into DU based on the requirements provided in B3-3.1-09, Other Sources of Income.

- If the borrower **will** return to work as of the first mortgage payment date, the lender can consider the borrower's regular employment income in qualifying and must enter the income into DU using the applicable income type.
- If the borrower will **not** return to work as of the first mortgage payment date, but is able to qualify using the lesser of the borrower's temporary leave income (if any) or regular employment income, that “lesser of” income amount must be entered into DU. Entry of the income into DU depends on what was derived as the “lesser of” amount:
    - When the borrower's temporary leave income is used, enter the income amount into DU using the other income type Temporary Leave.
    - When the borrower's regular employment income is used, enter the income amount in DU using the applicable income type.
- If the borrower's temporary leave income is less than the regular employment income and the lender is able to “supplement” the temporary income with available liquid reserves (per B3-3.1-09, Other Sources of Income), the following must be applied:
    - The lender must enter the combined temporary leave income and supplemental income from reserves in DU using the other income type Temporary Leave. The combination of these two incomes may not exceed the borrower's regular monthly employment income.
    - As DU is not able to determine that supplemental income is being used, nor is it able to determine the amount of reserves used to supplement the temporary income, the lender must manually reduce the amount of the borrower's total liquid assets by the amount of reserves used to supplement the temporary income (in order to avoid the reserves being used for both income and assets).

Nontaxable Income

DU does not provide any unique messaging identifying the use of adjusted gross income.

See B3-3.1-01, General Income Information, for guidance on how to calculate adjusted gross income for nontaxable income. This topic also defines the requirements that nontaxable income must meet to be considered for qualifying purposes in DU. If these requirements are not met, the borrower’s income must be adjusted downward.

> **Note**: Certain loan origination systems offer an automatic calculation of adjusted gross income when nontaxable income types are entered in the loan application.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-05	June 01, 2022
Announcement SEL-2021-10	November 03, 2021
Announcement SEL-2021-08	September 01, 2021
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-09	December 04, 2018

B3-3.5-02, Income from Rental Property in DU (06/01/2022)

Introduction

This topic provides information about rental property in DU, including:

- Associated Policies
- Entering Rental Income in DU for Properties that Are Not the Subject Property
- Conversion of Principal Residence to Investment Property
- Entering Rental Income in DU for the Subject Property
- Documentation of Rental Income

Associated Policies

The documentation, calculation, and other requirements that pertain to rental income on an investment property or two- to four-unit principal residence are the same for loans underwritten through DU as they are for manually underwritten loans. See B3-3.1-08, Rental Income, and B3-6-06, Qualifying Impact of Other Real

Estate Owned, for additional information.

Entering Rental Income in DU for Properties that Are Not the Subject Property

Properties already owned by the borrower must be entered in Section 3 along with the related existing mortgage loan(s). The following rental income policies apply to properties that are not the subject property. For rental income policies on the subject property, see *Entering Rental Income in DU for the Subject Property* below.

Investment Property

When submitting rental income to DU for an investment property:

- The lender should calculate the net rental income amount for each property and enter the amount (either positive or negative) in the Net Monthly Rental Income in Section 3.
- If the Net Monthly Rental Income is a "breakeven" amount, the user must enter either $0.01 or $-0.01.
- If Net Monthly Rental Income is not entered or is $0.00, DU will calculate it using this formula:
  (Gross rental income multiplied by 75%) minus property PITIA expense
- The lender can override DU's calculation by entering the Net Monthly Rental Income amount in Section 3.

Two- to four-unit Principal Residence

When submitting rental income to DU for the borrower's principal residence that is a two- to four-unit property:

- The lender should calculate the net rental income amount for the property and enter the amount in Net Monthly Rental Income in Section 3.
- The net rental income calculation is not reduced by the mortgage payment, which is always treated as a liability and included in the debt-to-income ratio.
- If Net Monthly Rental Income is not entered or is $0.00, DU will calculate it using this formula:
  Gross rental income multiplied by 75%
- The lender can override DU's calculation by entering the Net Monthly Rental Income amount in Section 3.

If the combined total Net Monthly Rental Income for all properties is positive, DU adds the net rental income to the qualifying income. If the total is negative, DU treats the loss as a liability and includes it in the debt-to-income ratio.

Refer to the Desktop Underwriter Job Aids (Troubleshooting - DTI Ratio Calculations Questions) for additional details on entry of real estate and rental income.

Conversion of Principal Residence to Investment Property

If the borrower is purchasing a principal residence and is retaining their current residence as a rental property, the current principal residence must be identified in Section 3 by entering Retained (Status field) and Investment (Intended Occupancy field).

Net rental income to be earned on the property may also be entered and used to qualify in accordance with the above requirements.

Entering Rental Income in DU for the Subject Property

The following rental income policies apply to properties that are the subject property. Refer to B3-3.1-08, Rental Income to determine the maximum amount of rental income that can be used for qualifying purposes for the subject property.

Investment property: Calculate the net rental income using the PITIA. If it is positive, it will be added to qualifying income. If it is negative, enter a negative value. DU treats the loss as a liability and includes it in the debt-to-income ratio. If income from the subject property is not used for qualifying purposes, the lender should enter the entire proposed PITIA as a negative amount.

Two- to four-unit principal residence: Calculate the net rental income without subtracting the proposed PITIA. Net rental income will be added to qualifying income. The PITIA will be included in the debt-to-income ratio.

Entry in the Loan Application

Rental income for the subject property must be entered as follows:

- **For a property already owned by the borrower**: The borrower enters the property in Section 3 and the lender must calculate and enter the net rental income in Net Monthly Rental Income.
- **For a property the borrower is purchasing:** The borrower enters Expected Monthly Rental Income in Section 4c and the lender must calculate and enter the net rental income in Expected Net Monthly Rental Income.

If income from an investment property is not included in the qualifying ratios, the lender must enter the entire proposed PITIA as a negative amount in Section 3 or 4c as applicable.

> **Note**: Rental income from a one-unit principal residence with an accessory unit or from a two- to four-unit principal residence is an acceptable source of qualifying income on HomeReady loans.

Documentation of Rental Income

Refer to B3-3.1-08, Rental Income for the applicable documentation requirements. If the debt-to-income ratio includes the entire rental property payment and income from the property is not used in qualifying, rental income documentation is not required. However, documentation of gross monthly rent for the subject property is required for lender reporting purposes. See *Reporting of Gross Monthly Rent* in B3-3.1-08, Rental Income, for additional information.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-05	June 01, 2022
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2019-08	October 02, 2019

Chapter B3-4, Asset Assessment

Introduction

This chapter explains asset assessment for qualifying, underwriting, and documentation purposes.

Section B3-4.1, General Asset Requirements

B3-4.1-01, Minimum Reserve Requirements (04/05/2023)

Introduction

This topic contains information on minimum reserve requirements, including:

- What Are Liquid Financial Reserves?
- Acceptable Sources of Reserves
- Unacceptable Sources of Reserves
- Supplementing Borrower Funds
- Determining Required Minimum Reserves
- Calculation of Reserves for Multiple Financed Properties
- Simultaneous Second Home or Investment Property Transactions
- Examples of Reserves Calculations
- Additional Resources

What Are Liquid Financial Reserves?

Liquid financial reserves are those liquid or near liquid assets that are available to a borrower after the mortgage closes. Liquid financial reserves include cash and other assets that are easily converted to cash by the borrower by

- drafting or withdrawing funds from an account,
- selling an asset,
- redeeming vested funds, or
- obtaining a loan secured by assets from a fund administrator or an insurance company.

Reserves are measured by the number of months of the qualifying payment amount for the subject mortgage (based on PITIA) that a borrower could pay using their financial assets. For monthly housing expense and qualifying payment requirements, see B3-6-03, Monthly Housing Expense for the Subject Property and B3-6-04, Qualifying Payment Requirements.

The definition of reserves applies to both manually underwritten mortgage loans and loan casefiles underwritten through DU. Funds to close are subtracted from available assets when considering sufficient assets for reserves.

Acceptable Sources of Reserves

Examples of liquid financial assets that can be used for reserves include readily available funds in

- checking or savings accounts;
- investments in stocks, bonds, mutual funds, certificates of deposit, money market funds, and trust accounts;
- the amount vested in a retirement savings account; and
- the cash value of a vested life insurance policy.

Unacceptable Sources of Reserves

The following cannot be counted as part of the borrower's reserves:

- funds that have not been vested;
- funds that cannot be withdrawn under circumstances other than the account owner's retirement, employment termination, or death;
- stock held in an unlisted corporation;
- non-vested stock options and non-vested restricted stock;
- personal unsecured loans;
- interested party contributions (IPCs) (see B3-4.1-02, Interested Party Contributions (IPCs));

- any amount of a lender contribution (see B3-4.3-06, Grants and Lender Contributions); and
- cash proceeds from a cash-out refinance transaction on the subject property.

Supplementing Borrower Funds

Funds received from acceptable sources may be used to supplement the borrower's funds to satisfy any financial reserve requirement.

> **Note**: Eligible gift funds (but not gifts of equity) may be used to satisfy reserve requirements.

Determining Required Minimum Reserves

Minimum required reserves vary depending on

- the transaction,
- the occupancy status and amortization type of the subject property,
- the number of units in the subject property, and
- the number of other financed properties the borrower currently owns.

Manually underwritten loans: The minimum required reserves are documented in the *Eligibility Matrix*.

DU loan casefiles: DU will determine the reserve requirements based on the following:

- Two months' reserves for a second home transaction.
- Six months' reserves for the following:
  - a two- to four-unit principal residence transaction,
  - an investment property transaction, and
  - a cash-out refinance transaction with a DTI ratio greater than 45%.
- Additional reserves are required when a borrower has multiple financed properties and the subject loan is secured by a second home or investment property. See *Calculation of Reserves for Multiple Financed Properties* below for additional details.
- Reserves equal to the balance of 30-day accounts (reduced by the cash back received on a refinance transaction).
- Additional reserves may need to be verified based on DU's overall risk assessment.

> **Note**: There is no minimum reserve requirement for one-unit principal residence transactions. High LTV refinance loans are exempt from the minimum reserve requirements.

Calculation of Reserves for Multiple Financed Properties

If the borrower owns other financed properties (determined in accordance with B2-2-03, Multiple Financed Properties for the Same Borrower), additional reserves must be calculated and documented for financed properties other than the subject property and the borrower's principal residence. The other financed properties reserves amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages and HELOCs on these other financed properties. The percentages are based on the number of financed properties:

- 2% of the aggregate UPB if the borrower has one to four financed properties,
- 4% of the aggregate UPB if the borrower has five to six financed properties, or
- 6% of the aggregate UPB if the borrower has seven to ten financed properties (DU only).

The aggregate UPB calculation does not include the mortgages and HELOCs that are on

- the subject property,
- the borrower's principal residence,
- properties that are sold or pending sale, and
- accounts that will be paid by closing (or omitted in DU on the online loan application).

Simultaneous Second Home or Investment Property Transactions

If a lender is processing multiple second home or investment property applications simultaneously, the same assets may be used to satisfy the reserve requirements for both mortgage applications. Reserves are not cumulative for multiple applications.

Example: A lender is simultaneously processing two refinance applications for two investment properties owned by the borrower. The application for property A requires reserves of $5,000. The application for property B requires reserves of $10,000. Because the reserves are covering the same properties, the lender does not have to verify $15,000 in reserves, but only those required per each application.

Examples of Reserves Calculations

The following tables contain examples of reserves calculations for borrowers with multiple financed properties.

Example 1: Three Financed Properties

Occupancy	Outstanding UPB	Monthly PITIA	Reserves Calculations	
Subject: Second Home	$78,750	$776	2 Months PITIA =	$1,552
Principal	$0	$179	N/A	$0
Investor	*$87,550*	$787	$230,050 x 2% =	$4,601
Investor	*$142,500*	$905		

Occupancy	Outstanding UPB	Monthly PITIA	Reserves Calculations	
	$230,050		**Total =**	**$6,153**

Example 2: Six Financed Properties

Occupancy	Outstanding UPB	Monthly PITIA	Reserves Calculations	
Subject: Investor	$78,750	$776	6 Months PITIA =	$4,656
Principal	$133,000	$946	N/A	$0
Investor	*$87,550*	$787	$345,030 x 4% =	$13,801
Investor	*$142,500*	$905		
Investor	*$84,950*	$722		
Investor	*$30,030*	$412		
	$345,030		**Total =**	**$18,457**

Example 3: Eight Financed Properties (DU ONLY)

Occupancy	Outstanding UPB	Monthly PITIA	Reserves Calculations	
Subject: Investor	$78,750	$776	6 Months PITIA =	$4,656
Principal	$133,000	$946	N/A	$0

<table>
<tr><th>Occupancy</th><th>Outstanding UPB</th><th>Monthly PITIA</th><th colspan="2">Reserves Calculations</th></tr>
<tr><td>Investor</td><td>$87,550</td><td>$787</td><td rowspan="6">$629,530 x 6% =</td><td rowspan="6">$37,772</td></tr>
<tr><td>Investor</td><td>$142,500</td><td>$905</td></tr>
<tr><td>Investor</td><td>$84,950</td><td>$722</td></tr>
<tr><td>Investor</td><td>$30,030</td><td>$412</td></tr>
<tr><td>Second Home</td><td>$124,500</td><td>$837</td></tr>
<tr><td>Investor</td><td>$160,000</td><td>$1,283</td></tr>
<tr><td></td><td>$629,530</td><td></td><td>Total =</td><td>$42,427</td></tr>
</table>

Additional Resources

- B2-2-03, Multiple Financed Properties for the Same Borrower;
- B3-4.4-01, DU Asset Verification;
- B3-6-03, Monthly Housing Expense for the Subject Property; and
- B3-6-04, Qualifying Payment Requirements.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-03	April 05, 2023
Announcement SEL-2020-06	October 07, 2020
Announcement SEL-2019-07	August 07, 2019

Announcements	Issue Date
Announcement SEL-2018-03	April 03, 2018

B3-4.1-02, Interested Party Contributions (IPCs) (08/04/2021)

Introduction

This topic contains information on interested party contributions, including:

- Overview
- IPC Limits
- Lender Checklist for IPCs
- Lender Incentives for Borrowers

Overview

Interested party contributions (IPCs) are costs that are normally the responsibility of the property purchaser that are paid directly or indirectly by someone else who has a financial interest in, or can influence the terms and the sale or transfer of, the subject property.

Interested parties to a transaction include, but are not limited to, the property seller, the builder/developer, the real estate agent or broker, or an affiliate who may benefit from the sale of the property and/or the sale of the property at the highest price possible. A lender or employer is not considered an interested party to a sales transaction unless it is the property seller or is affiliated with the property seller or another interested party to the transaction. (For Fannie Mae's purposes, an affiliation exists when there is direct common ownership or control by the lender over the interested party or vice versa, or when there is direct common ownership or control by a third party over both the lender and the interested party. A typical ongoing business relationship — for example, the relationship between a builder and a lender that serves as its financial institution — does not constitute an affiliation.)

IPCs are either financing concessions or sales concessions. Fannie Mae considers the following to be IPCs:

- funds that are paid directly from the interested party to the borrower;
- funds that flow from an interested party through a third-party organization, including nonprofit entities, to the borrower;
- funds that flow to the transaction on the borrower’s behalf from an interested party, including a third-party organization or nonprofit agency; and

- funds that are donated to a third party, which then provides the money to pay some or all of the closing costs for a specific transaction.

A lender credit derived from premium pricing is not considered an IPC even if the lender is an interested party to the transaction.

See B3-4.1-03, Types of Interested Party Contributions (IPCs), for more information.

Fannie Mae does not permit IPCs to be used to make the borrower’s down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements.

IPC Limits

The table below provides IPC limits for conventional mortgages.

IPCs that exceed these limits are considered sales concessions. The property’s sales price must be adjusted downward to reflect the amount of contribution that exceeds the maximum, and the maximum LTV/CLTV ratios must be recalculated using the reduced sales price or appraised value.

Occupancy Type	LTV/CLTV Ratio	Maximum IPC
Principal residence or second home	Greater than 90%	3%[1]
	75.01% – 90%	6%
	75% or less	9%
Investment property	All CLTV ratios	2%

Lender Checklist for IPCs

The lender must ensure that all of the following requirements for an IPC are satisfied.

✓	Lender Checklist for IPCs
	Ensure that any and all IPCs have been identified and taken into consideration.
	Provide the appraiser with all appropriate financing data and IPCs for the subject property granted by anyone associated with the transaction.
	Ensure that the property value is adequately supported.

✓	Lender Checklist for IPCs
	Ensure that the LTV and CLTV ratios, after any IPCs are taken into consideration, remain within Fannie Mae's eligibility limits for the particular product.
	Ensure that mortgage insurance coverage, if applicable, has been obtained, based on the LTV ratio after any IPC adjustments have been made.
	Scrutinize all loan and sales contract documents, including but not limited to the sales contract, the loan estimate, the loan application, the appraisal report, and the settlement statement.
	Ensure that all elements of the settlement statement were taken into consideration during the underwriting process.
	Ensure that fees and expenses are consistent between all documents. Analyze any differences and review any discrepancies.

Lender Incentives for Borrowers

Cash or Cash-like Incentives for all Transaction Types: The lender may provide the borrower with a cash or cash-like (e.g., a gift card) incentive that is not reflected on the settlement statement provided that

- the amount of the incentive does not exceed $500, and
- no repayment is required.

Because the lender is not typically a party to the sales transaction, these types of lender incentives are not considered IPCs and, as a result, are not included in the IPC limit calculation. Furthermore, these incentives are not considered cash out to the borrower and do not have to be included in the cash back to borrower at closing calculation.

> **Note**: Documentation of compliance with this policy will not be required at the loan level. However, the lender must establish policies and/or procedures to ensure that the loans with these types of incentives that it delivers to Fannie Mae, whether or not the loans were originated by the lender, are in compliance with this policy.

Pay Down of Existing Mortgage Balance for Eligible Refinance Transactions: For high LTV refinance transactions, incentives to the borrower in the form of a payment to pay off a portion of the mortgage loan being refinanced is not considered an IPC and, as a result, is not included in the IPC limit calculation. Furthermore, this incentive is not considered cash out to the borrower and it does not have to be included in the cash back to borrower at closing calculation.

See *New Loan Requirements* in B5-7-01, High LTV Refinance Loan and Borrower Eligibility for additional requirements related to this policy for high LTV refinance loans.

1 See B5-4.2-03, Loans Secured by HomePath Properties for an exception to this limit for principal residence transactions.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-07	August 04, 2021
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-06	August 07, 2018

B3-4.1-03, Types of Interested Party Contributions (IPCs) (12/16/2020)

Introduction

This topic contains information on types of interested party contributions, including:

- Undisclosed IPCs
- Down Payment Assistance Programs
- Financing Concessions
- Sales Concessions
- Interest Rate Buydowns
- Payment Abatements

Undisclosed IPCs

Mortgages with undisclosed IPCs are not eligible for delivery to Fannie Mae. Examples of these types of contributions include, but are not limited to, moving expenses, payment of various fees on the borrower's behalf, “silent” second mortgages held by the property seller, and other contributions that are given to the borrower outside of closing and are not disclosed on the settlement statement.

Down Payment Assistance Programs

Funds that are donated to third parties which are then applied toward some or all of the borrower’s closing costs for a specific transaction are sometimes referred to as Down Payment Assistance Programs (DAPs). As long as the DAP allows such uses, these funds may also be used to pay for energy-related improvements that meet the requirements described in B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties.

IPC funds that flow through a DAP may be used for allowable closing costs, prepaids, and energy-related expenses in compliance with Fannie Mae’s IPC limits.

Financing Concessions

Financing concessions that are paid on the borrower’s behalf are subject to Fannie Mae’s IPC limits. Financing concessions are:

- financial contributions from interested parties that provide a benefit to the borrower in the financing transaction;
- payments or credits related to acquiring the property; and
- payments or credits for financing terms, including prepaids.

Typical fees and/or closing costs paid by a seller in accordance with local custom, known as common and customary fees or costs, are not subject to Fannie Mae IPC limits. Payoff of a PACE loan by a seller is not subject to Fannie Mae IPC limits because it is not a financing concession. Financing concessions that exceed the limits listed below are considered sales concessions and are subject to Fannie Mae IPC limits.

Financing concessions typically include origination fees, discount points, commitment fees, appraisal costs, transfer taxes, stamps, attorneys’ fees, survey charges, title insurance premiums or charges, real estate tax service fees, and funds to subsidize a temporary or permanent interest rate buydown (if these fees are not considered common and customary fees or costs based on local custom, as described above). Financing concessions can also include prepaid items, such as:

- interest charges (limited to no more than 30 days of interest);
- real estate taxes covering any period after the settlement date (only if the taxes are being impounded by the servicer for future payment);
- property insurance premiums (limited to no more than 14 months);
- homeowners’ association (HOA) assessments covering any period after the settlement date (limited to no more than 12 months);
- initial and/or renewal mortgage insurance premiums; and
- escrow accruals required for renewal of borrower-purchased mortgage insurance coverage.

A legitimate pro-rated real estate tax credit in places where real estate taxes are paid in arrears is not considered a financing concession and is not subject to Fannie Mae IPC limits.

Sales Concessions

Sales concessions are IPCs that take the form of non-realty items. They include cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways, as well as financing concessions that exceed Fannie Mae limits. Consequently, the value of sales concessions must be deducted from the sales price when calculating LTV and combined LTV ratios for underwriting and eligibility purposes.

Interest Rate Buydowns

If a temporary or permanent interest rate buydown is being offered to the borrower, the cost of the subsidy to fund that buydown must be included in the IPC calculation, if received from an interested party or a lender affiliated with an interested party.

The lender must determine if the cost of the subsidy meets allowable IPC limits. This can be accomplished by confirming the current market interest rate—in other words, the rate that is offered without the payment of any discount points—and the discount points being charged to obtain the interest rate being offered with the buydown.

> **Note**: Fees for standby commitments that a builder obtains for blanket coverage before it enters into a contract with a borrower are not subject to Fannie Mae's IPC limits because they are not attributable to the specific mortgage transaction.

Payment Abatements

A payment abatement is considered to be a financing concession since it is an incentive provided to the borrower by an interested party, in which the interested party provides funds to pay or reimburse a certain number of monthly payments on the borrower's behalf. The monthly payments may cover, in whole or in part, principal, interest, taxes, insurance and other assessments (PITIA). These funds are provided to the lender or a third party to be distributed over the term of the abatement period or credited against the borrower's future obligations.

Loans with payment abatements of any type are not eligible for delivery to Fannie Mae regardless of whether they are disclosed on the settlement statement. This prohibition applies to transactions in which an interested party is directly funding the abatement and/or if the funding for the abatement is flowing through another entity such, as a nonprofit down payment assistance program.

> **Note**: The payment of HOA fees is not considered an abatement unless the payment of the fee extends for more than 12 months. The payment of HOA fees for 12 months or less is considered an interested party contribution.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-07	December 16, 2020

B3-4.1-04, Virtual Currency (05/04/2022)

Introduction

This topic contains information on the use of virtual currency, such as cryptocurrencies, as part of the asset assessment process.

- Virtual Currency

Virtual Currency

Virtual currency that has been exchanged into U.S. dollars is acceptable for the down payment, closing costs, and financial reserves provided the following requirements are met:

- there is documented evidence that the virtual currency has been exchanged into U.S. dollars and is held in a U.S. or state regulated financial institution, and
- the funds are verified in U.S. dollars prior to the loan closing.

A large deposit may be from virtual currency that was exchanged into U.S. dollars. The lender must obtain sufficient documentation to verify the funds originated from the borrower's virtual currency account.

Virtual currency may not be used for the deposit on the sales contract (earnest money) for the purchase of the subject property.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic

Announcements	Issue Dates
Announcement SEL-2022-04	May 04, 2022

Section B3-4.2, Verification of Depository Assets

B3-4.2-01, Verification of Deposits and Assets (05/04/2022)

Introduction

This topic contains information on verifying deposits and assets, including:

- Verification of Deposits and Assets
- Asset Documentation Provided by a Third-Party Asset Verification Vendor
- Blanket Authorization Form

Verification of Deposits and Assets

The lender can use any of the following types of documentation to verify that a borrower has sufficient funds for closing, down payment, and/or financial reserves:

- *Request for Verification of Deposit* (Form 1006 or Form 1006(S)). The information must be requested directly from the depository institution, and the complete, signed, and dated document must be sent directly from the depository institution.
- Copies of bank statements or investment portfolio statements. All statements must:
  - clearly identify the financial institution,
  - clearly identify the borrower as the account holder,
  - include at least the last four digits of the account number,
  - include the time period covered by the statement,
  - include all deposits and withdrawal transactions (for depository accounts),
  - include all purchase and sale transactions (for financial portfolio accounts), and
  - include the ending account balance.

  If the lender is the holder of the borrower's account, the lender may produce a printout or other alternative verification of the asset(s) directly from its system. The printout or alternative verification is acceptable as long as all required data (above) is supplied and documented.
- Copies of retirement account statements. They must be the most recent statements, and they must

identify the borrower's vested amount and the terms. (See B3-4.3-03, Retirement Accounts, for additional information.)

The number of required bank or investment portfolio statements varies per transaction type as shown in the following table.

Documentation Requirements	
Purchase transactions	The statements must cover the most recent full two-month period of account activity (60 days, or, if account information is reported on a quarterly basis, the most recent quarter).
Refinance transactions	The statements must cover the most recent full one-month period of account activity (30 days, or, if account information is reported on a quarterly basis, the most recent quarter).

If the latest bank statement is more than 45 days earlier than the date of the loan application, the lender should ask the borrower to provide a more recent, supplemental, bank-generated form that shows at least the last four digits of the account number, balance, and date. The statements may be computer-generated forms, including online account or portfolio statements downloaded by the borrower from the Internet.

Documents that are faxed to the lender or downloaded from the Internet must clearly identify the name of the depository or investment institution and the source of information—for example, by including that information in the Internet or fax banner at the top of the document.

If necessary, the lender must supplement these verifications by obtaining any missing information from the borrower or the depository institution.

See B3-4.4-02, Requirements for Certain Assets in DU, for additional information about documentation of assets for DU loan casefiles.

In addition, loans with assets validated by DU must comply with all requirements pertaining to the DU validation service. Compliance with the DU messages satisfies the requirement for documenting assets. This documentation may differ from the requirements described above. See B3-2-02, DU Validation Service , for additional information.

Asset Documentation Provided by a Third-Party Asset Verification Vendor

- Direct verification by a third-party asset verification vendor. These verifications are acceptable as long as:
  - the borrower provided proper authorizations for the lender to use the verification method,
  - the verified information provided must conform with the information that would be provided on Form 1006, Form 1006(S), or on bank statements,
  - the date of the completed verification is in compliance with B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns,

- the lender has determined that the vendor maintains reasonable practices that ensure reliable and authorized verifications of deposit and asset information (see A4-1-01, Maintaining Seller/Servicer Eligibility), and
- the lender understands it will be held accountable for the integrity of the information obtained from this source.

Blanket Authorization Form

Rather than having the applicant sign multiple forms, the lender may have the applicant sign an authorization form which gives the lender blanket authorization to request the information it needs to evaluate the applicant's creditworthiness. (See B1-1-02, Blanket Authorization Form.) When the lender uses this type of blanket authorization, it must attach a copy of the authorization form to each Form 1006 or Form 1006(S) it sends to the depository institutions in which the applicant has accounts.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-04	May 04, 2022
Announcement SEL-2022-01	February 02, 2022
Announcement SEL-2021-06	July 7, 2021

B3-4.2-02, Depository Accounts (12/14/2022)

Introduction

This topic contains information on depository accounts, including:

- Depository Accounts
- Business Assets
- Evaluating Large Deposits
- Request for Verification of Deposit

Depository Accounts

Funds held in a checking, savings, money market, certificate of deposit, or other depository accounts may be used for the down payment, closing costs, and financial reserves. The funds must be verified as described in B3-4.2-01, Verification of Deposits and Assets. Unverified funds are not acceptable for the down payment, closing costs, or financial reserves.

The lender must investigate any indications of borrowed funds. These must be identified differently based upon how the asset account was verified.

Business Assets

Business assets may be an acceptable source of funds for the down payment, closing costs, and financial reserves. The borrower must be listed as an owner of the account and the account must be verified in accordance with B3-4.2-01, Verification of Deposits and Assets. If the borrower is also using self-employment income from this business to qualify, see Section B3–3.2, Self-Employment Income, for additional information on the analysis of a self-employed borrower.

Evaluating Large Deposits

A large deposit is defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. When bank statements (typically covering the most recent two months) are used, the lender must evaluate large deposits. See B3-4.1-04, Virtual Currency for additional information when a large deposit may be from virtual currency that was exchanged into U.S. dollars. Requirements for evaluating large deposits vary based on the transaction type, as shown in the table below.

Transaction Type	Evaluation Requirements
Refinance transactions	Documentation or explanation for large deposits is **not** required; however, the lender remains responsible for ensuring that any borrowed funds, including any related liability, are considered.

Transaction Type	Evaluation Requirements
Purchase transactions	• If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the lender must document that those funds are from an acceptable source. Occasionally, a borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, the lender must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile. Examples of acceptable documentation include the borrower's written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The lender must place in the loan file written documentation of the rationale for using the funds. • Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and the lender must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When the lender uses a reduced asset amount, net of the unsourced amount of a large deposit, that reduced amount must be used for underwriting purposes (whether the loan is underwritten manually or through DU). **Note**: When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit. **Examples** • **Scenario 1:** Borrower has monthly income of $4,000 and an account at ABC Bank with a balance of $20,000. A deposit of $3,000 is identified, but $2,500 of that deposit is documented as coming from the borrower's federal income tax refund. Only the unsourced $500 [the deposit of $3,000 minus the documented $2,500] must be considered in calculating whether it meets the large deposit definition. The unsourced $500 is 12.5% of the borrower's $4,000 monthly income, falling short of the 50% definition of a large deposit. Therefore, it is not considered a large deposit and the entire $20,000 balance in the ABC Bank account can be used for underwriting purposes. • **Scenario 2:** Using the same borrower example, a deposit of $3,000 is identified, but only $500 is documented as coming from the borrower's federal income tax refund, leaving $2,500 unsourced. In this instance, the unsourced $2,500 is 63% of the borrower's $4,000 monthly income, which does meet the definition of a large deposit. Therefore, the unsourced $2,500 must be subtracted from the account balance of $20,000 and only the remaining $17,500 may be used for underwriting purposes.

> **Note**: If the source of a large deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the lender does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the lender still has questions as to whether the funds may have been borrowed, the lender should obtain additional documentation.

The DU validation service automates the assessment of large deposits. When assets are validated, DU issues a message indicating which large deposits require documentation. Compliance with the DU messages satisfies the requirement for documenting large deposits. See B3-2-02, DU Validation Service

Request for Verification of Deposit

When a *Verification of Deposit* (Form 1006 or Form 1006(S)) (VOD) is used and depository activity is not included, the lender must verify the source of funds for

- accounts opened within the last 90 days of the application date, and
- account balances that are considerably greater than the average balance reflected on the VOD.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2022-04	May 04, 2022

B3-4.2-03, Individual Development Accounts (02/06/2019)

Introduction

This topic contains information on individual development accounts, including:

- Individual Development Accounts
- Use of IDA Funds to Meet Borrower Minimum Contribution Requirements
- Lender Checklist for IDAs

Individual Development Accounts

Some nonprofit agencies will match the funds a borrower regularly deposits into a savings account that has been designated as an account that is used solely for the accumulation of funds to purchase a home. Such accounts are referred to as individual development accounts, or IDAs.

Nonprofit agencies that offer IDA programs have options with respect to accumulating and holding the matching funds, which include:

- the use of a parallel “savings” account that is separate from the homebuyer’s savings account;
- separately designated matching funds within a single agency account via accounting processes to allocate matching funds to a particular homebuyer; and
- the use of a trustee account that contains both the homebuyer’s funds and the agency’s matching funds.

When a homebuyer reaches the target amount and is ready to complete the home purchase, the funds are disbursed from the nonprofit agency account to the closing agent via a single check or multiple checks.

If the agency’s matching funds are held in an account that is separate from the homebuyer’s account, the matching funds need not be commingled with the homebuyer’s funds prior to disbursement to the closing agent. It is acceptable to allow the separate disbursement of funds from the agency and from the homebuyer, as long as the terms of the IDA program are met.

Funds that the borrower deposited into an IDA may be used for either closing costs or the down payment.

Use of IDA Funds to Meet Borrower Minimum Contribution Requirements

Funds that the borrower deposited into an IDA may be used for either the closing costs or the down payment. Depending on the repayment terms of the IDA program, the borrower may or may not be required to meet the minimum down payment requirements from their own funds, as outlined below:

IDA Repayment Terms	Allowable Use of Matching Funds
The nonprofit agency • requires repayment of the matching funds, • agrees to defer or forgive repayment provided that certain conditions are met, or • files a lien against the property.	The borrower may use the matching funds to supplement the down payment provided they have met the minimum borrower contribution requirements. The minimum borrower contribution must come from the borrower's own funds unless: • the LTV or CLTV ratio is less than or equal to 80%; or • the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contributions. See B3-4.3-04, Personal Gifts; B3-4.3-06, Grants and Lender Contributions; and B3-4.3-08, Employer Assistance, for additional information.
The nonprofit agency • does not require repayment of the matching funds and • does not file a lien against the property.	The borrower may use the matching funds for some or all of the down payment without first being required to meet the minimum borrower contribution requirement from their own funds.

Lender Checklist for IDAs

The lender must ensure that all of the following requirements for an IDA are satisfied:

✓	Lender Checklist for IDAs
	Document how the nonprofit agency’s IDA program operates.
	Verify the rate at which the agency matches borrower deposits into the account.
	Determine that the borrower satisfied the program’s vesting requirements.
	Document the borrower’s regular payments into the account and the agency’s regular deposits of matching funds into the account.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-01	February 06, 2019

B3-4.2-04, Pooled Savings (Community Savings Funds) (04/01/2009)

Introduction

This topic contains information on pooled savings (community savings funds).

- Pooled Savings (Community Savings Funds)

Pooled Savings (Community Savings Funds)

Funds from a community savings account or any other type of pooled savings may be used for the down payment if the borrower can document regular contributions to the fund.

Acceptable documentation includes written confirmation from the party managing the pooled savings fund and documentation of regular borrower contributions.

The borrower’s obligation to continue making contributions to the fund must be considered as part of the borrower’s debt when calculating the total debt-to-income ratio.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-4.2-05, Foreign Assets (05/04/2022)

Introduction

This topic provides information on the use of assets that are located outside the United States and its territories.

- Requirements for Foreign Assets

Requirements for Foreign Assets

The lender must document all sources of funds used for down payments, closing costs and financial reserves. All documents of a foreign origin must be completed in English, or the originator must provide a translation, attached to each document, and ensure the translation is complete and accurate.

When the source of those funds originates from assets located outside of the U.S. and its territories, those assets require

- documented evidence of the foreign assets exchanged into U.S. dollars and held in a U.S. or state regulated financial institution, and
- verification of the funds in U.S. dollars prior to the loan closing.

The lender must evaluate large deposits in accordance with B3-4.2-02, Depository Accounts.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-04	May 04, 2022

Section B3-4.3, Verification of Non-Depository Assets

B3-4.3-01, Stocks, Stock Options, Bonds, and Mutual Funds (06/30/2015)

Introduction

This topic contains information on stocks, stock options, bonds, and mutual funds.

- Stocks, Stock Options, Bonds, and Mutual Funds

Stocks, Stock Options, Bonds, and Mutual Funds

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The lender must verify the borrower's ownership of the account or asset. The value of the asset and any related documentation must meet the requirements outlined in the table below.

Asset Type	Determining the Value of the Asset
Stocks and mutual funds	The lender must determine the value of the asset (net of any margin accounts) by obtaining either • the most recent monthly or quarterly statement from the depository or investment firm; or • a copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application.
Stock options	The value of vested stock options can be documented by • a statement that lists the number of options and the option price, and • using the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock. **Note**: Non-vested stock options are not an acceptable source of funds for the down payment, closing costs, or reserves and should not be entered on the loan application.
Government bonds	The value of government bonds must be based on their purchase price unless the redemption value can be documented.

When used for the down payment or closing costs, if the value of the asset (as determined above) is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.

When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.

Refer to B3-4.3-03, Retirement Accounts, for the requirements pertaining to the use of retirement accounts for the down payment, closing costs, or reserves.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-4.3-02, Trust Accounts (04/01/2009)

Introduction

This topic contains information on trust accounts.

- Trust Accounts

Trust Accounts

Funds disbursed from a borrower's trust account are an acceptable source for the down payment, closing costs, and reserves provided the borrower has immediate access to the funds.

To document trust account funds, the lender must:

- obtain written documentation of the value of the trust account from either the trust manager or the trustee, and
- document the conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-4.3-03, Retirement Accounts (06/30/2015)

Introduction

This topic contains information on retirement accounts.

- Retirement Accounts

Retirement Accounts

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. The lender must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of current employment status.

If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements of B3-4.3-01, Stocks, Stock Options, Bonds, and Mutual Funds, for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves, Fannie Mae does not require the funds to be withdrawn from the account(s).

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-4.3-04, Personal Gifts (12/14/2022)

Introduction

This topic contains information on personal gifts, including:

- Gift Funds
- Acceptable Donors
- Minimum Borrower Contribution Requirements
- Documentation Requirements
- Verifying Donor Availability of Funds and Transfer of Gift Funds

Gift Funds

A borrower of a mortgage loan secured by a principal residence or second home may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements below. Gifts are not allowed on an investment property.

> **Note**: A gift of equity may not be used for financial reserves. For additional information, see B3-4.3-05, Gifts of Equity.

Acceptable Donors

A gift can be provided by:

- a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
- a non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, former relative, or godparent.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

> **Note**: The donor of a gift of equity is not considered an interested party to the transaction.

See B3-4.3-06, Grants and Lender Contributions, for information about donations from entities (grants).

Minimum Borrower Contribution Requirements

The following table describes the minimum borrower contribution requirements for transactions that contain gifts.

LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
80% or less	One- to four-unit principal residence Second home	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.

LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
Greater than 80%	One-unit principal residence	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
	Two- to four-unit principal residence Second home	The borrower must make a 5% minimum borrower contribution from their own funds. [1] After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves. See B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements, for HomeReady mortgage minimum borrower contribution and down payment requirements.

Documentation Requirements

Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:

- specify the actual or the maximum dollar amount of the gift;
- include the donor's statement that no repayment is expected; and
- indicate the donor's name, address, telephone number, and relationship to the borrower.

> **Note:** If the actual amount of the gift received is different than the amount used to underwrite the loan casefile in DU, the lender may need to resubmit the loan casefile to DU in accordance with B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report. For manually underwritten loans, the lender must verify the borrower has sufficient funds for closing, down payment and/or financial reserves.

When a gift from an acceptable donor is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

- A certification from the donor stating that they have lived with the borrower for the past 12 months and will continue to do so in the new residence.
- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

Verifying Donor Availability of Funds and Transfer of Gift Funds

The lender must verify that sufficient funds to cover the gift are either in the donor's account (such as a checking, savings or investment account owned by the donor) or have been transferred to the borrower's account. Acceptable documentation includes the following:

- a copy of the donor's check and the borrower's deposit slip,
- a copy of the donor's withdrawal slip and the borrower's deposit slip,
- evidence of the electronic transfer of funds from the donor's account to the borrower's account or to the closing agent;
- a copy of the donor's check to the closing agent, or
- a settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of an electronic transfer, certified check, a cashier's check, or other official check.

1 If the borrower receives a gift from an acceptable donor who has lived with the borrower for the last 12 months, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements and Release Notes	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2022-08	September 07, 2022
Announcement SEL-2020-06	October 07, 2020

B3-4.3-05, Gifts of Equity (10/07/2020)

Introduction

This topic contains information on gifts of equity, including:

- Gift of Equity
- Documentation Requirements

Gift of Equity

A “gift of equity” refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller’s equity in the property, and is transferred to the buyer as a credit in the transaction.

A gift of equity

- is permitted for principal residence and second home purchase transactions;
- can be used to fund all or part of the down payment and closing costs (including prepaid items); and
- cannot be used towards financial reserves.

The acceptable donor and minimum borrower contribution requirements for gifts also apply to gifts of equity. See B3-4.3-04, Personal Gifts. When a gift of equity is provided by an acceptable donor, the donor is not considered to be an interested party and the gift of equity is not subject to Fannie Mae’s interested party contribution requirements (see B3-4.1-02, Interested Party Contributions (IPCs)).

Documentation Requirements

The following documents must be retained in the loan file:

- a signed gift letter (see B3-4.3-04, Personal Gifts), and
- the settlement statement listing the gift of equity.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-06	October 07, 2020

B3-4.3-06, Grants and Lender Contributions (12/14/2022)

Introduction

This topic contains information on grants and lender contributions, including:

- Donations From Entities - Grants
- Minimum Borrower Contribution Requirements
- Documentation Requirements
- Lender-funded Grants
- Lender Contributions

Donations From Entities - Grants

Borrowers of a loan secured by a principal residence may use funds donated from acceptable entities for all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements described below. These funds are referred to as a grant.

Grants must be funded by one of the following entities, provided they are not the property seller or other interested party in the transaction:

- a federal agency, state, county, or similar political subdivision of a state;
- any city, town, village, or borough of a state that
  - has a local government and that has been created by a special legislative act,
  - has been otherwise individually incorporated or chartered pursuant to state law, or
  - is recognized as such under the constitution or by the laws of the state in which it is located,
- a housing finance agency as defined in 24 C.F.R. §266.5;
- a nonprofit organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code;
- a regional Federal Home Loan Bank under one of its affordable housing programs;
- an employer where the borrower is an employee (see B3-4.3-08, Employer Assistance);
- an Indian tribe on the most current list published by the Secretary of the Interior pursuant to 25 U.S.C. §5131; or
- a lender (see *Lender-funded Grants*).

Down payment assistance may not be funded in any way through the first mortgage, such as through premium pricing.

Grant funds may also be applied towards energy-related improvements if

- the program under which the funds are made available allows such a use, and
- the minimum borrower contribution requirements are met.

Minimum Borrower Contribution Requirements

The following table describes the minimum borrower contribution requirements for transactions that contain grants (excluding lender-funded grants).

<table>
<tr><th>LTV, CLTV, or HCLTV Ratio</th><th colspan="2">Minimum Borrower Contribution Requirement from Borrower’s Own Funds</th></tr>
<tr><td>80% or less</td><td>One- to four-unit principal residence</td><td>A minimum borrower contribution from the borrower’s own funds is not required. All funds needed to complete the transaction can come from a grant.</td></tr>
<tr><td rowspan="2">Greater than 80%</td><td>One-unit principal residence</td><td>A minimum borrower contribution from the borrower’s own funds is not required. All funds needed to complete the transaction can come from a grant.</td></tr>
<tr><td>Two- to four-unit principal residence</td><td>The borrower must make a 5% minimum borrower contribution from their own funds. After the minimum borrower contribution has been met, grants can be used to supplement the down payment, closing costs, reserves, and energy-related improvements.</td></tr>
</table>

Documentation Requirements

The grant must be documented with a copy of the letter awarding the grant to the borrower or a copy of the legal agreement that specifies the terms and conditions of the grant. The document must include language indicating that repayment of the grant is not expected, and how the funds will be transferred to the borrower, lender, or closing agent.

The transfer of grants must be documented with a copy of the donor’s canceled check, a copy of the settlement statement showing receipt of the check, or similar evidence. The documentation must be included in the individual loan file.

Lender-funded Grants

A lender-funded grant is subject to the requirements described in this topic, but must also meet the requirements in the following table.

✓	Additional Requirements for Lender-funded Grants
	The loan must be a HomeReady loan used for a purchase transaction. See *Chapter B5-6, HomeReady Mortgage* for additional information.
	• One-unit principal residences: The borrower(s) must make a 3% contribution from their own funds, other eligible sources of funds as described in *Chapter B3-4, Asset Assessment*, or through a Community Seconds loan. • Two- to four-unit principal residences with LTV, CLTV, or HCLTV ratios 80% or less: The borrower(s) must make a 3% contribution from their own funds, other eligible sources of funds as described in *Chapter B3-4, Asset Assessment*, or through a Community Seconds loan. • Two- to four-unit principal residences with LTV, CLTV, or HCLTV ratios greater than 80%: The borrower(s) must make a 5% minimum contribution from their own funds.
	The lender must have a documented program that provides grants for low- to moderate-income borrowers, community development, equitable housing initiatives, or similar initiatives.

> **Note:** When a lender is only providing closing cost assistance, the *Lender Contributions* policy may be applied instead of the *Lender-funded Grants* policy.

Lender Contributions

The lender may provide the borrower with a contribution to fund borrower-paid closing costs and prepaid fees in the following cases:

- The lender credit is derived from premium pricing, as described in *Premium Pricing* in B2-1.5-02, Loan Eligibility.
- The lender credit is sourced directly from lender funds with no expectation for repayment or financial obligation apart from the subject mortgage. Funds passed to the lender from a third party, for the purpose of providing a lender credit, are not eligible as a lender contribution.

The amount of the lender contribution should not exceed the amount of borrower-paid closing costs and prepaid fees and may not be used to fund any portion of the down payment or financial reserve requirements. Lender contributions are not considered grants.

When the lender is an interested party to a purchase transaction, any amount of a lender contribution not derived from premium pricing, must be considered as an IPC when calculating the maximum IPC limit for eligibility purposes.

Any excess lender credit required to be returned to the borrower in accordance with applicable regulatory requirements is considered an overpayment of fees and charges and may be applied as a principal curtailment or returned in cash to the borrower. See B2-1.3-01, Purchase Transactions and B2-1.3-02, Limited Cash-Out Refinance Transactions for treatment of the overpayment of fees and charges.

Lenders may also provide borrowers with cash or cash-like incentives that do not need to be reflected on the settlement statement. See B3-4.1-02, Interested Party Contributions (IPCs) for additional information.

> **Note:** If a lender is required to provide down payment assistance to satisfy a legal settlement or judgement, enforcement action or other regulatory action, Fannie Mae will consider purchasing those loans on a negotiated basis. Lenders may contact their Fannie Mae customer account team for more information.

Recent Related Announcements

The table below provides reference to recently issued Announcements that are related to this topic.

Announcement	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2022-07	August 03, 2022
Announcement SEL-2021-08	September 01, 2021
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2018-04	May 01, 2018
Announcement SEL-2018-03	April 03, 2018

B3-4.3-07, Disaster Relief Grants or Loans (04/01/2009)

Introduction

This topic contains information on disaster relief grants or loans.

- Disaster Relief Grant or Loan

Disaster Relief Grant or Loan

Borrowers may use lump-sum disaster relief grants or loans to satisfy Fannie Mae's minimum borrower contribution requirement. No borrower contribution is required.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-4.3-08, Employer Assistance (09/29/2015)

Introduction

This topic contains information on employer assistance, including:

- Forms of Employer Assistance
- Minimum Borrower Contribution Requirements
- Documentation Requirements

Forms of Employer Assistance

The employer assistance may be in the form of:

- a grant,
- a direct, fully repayable second mortgage or unsecured loan,
- a forgivable second mortgage or unsecured loan, or
- a deferred-payment second mortgage or unsecured loan.

A borrower of a mortgage loan secured by a principal residence may use funds provided by an employer to fund all or part of the down payment or closing costs subject to the minimum borrower contribution requirements below. Employer assistance can also be used for financial reserves for all types of assistance with the exception of unsecured loans (which may only be used for the down payment and closing costs). Employer assistance funds are not allowed on a second home or an investment property.

Funds must come directly from the employer, including through an employer-affiliated credit union.

When employer assistance is extended as a secured second mortgage, the transaction may be structured as a Community Seconds (see B5-5.1-02, Community Seconds Loan Eligibility) or it must satisfy Fannie Mae's eligibility criteria for mortgages that are subject to subordinate financing (see B2-1.2-04, Subordinate Financing).

If the secured second mortgage or unsecured loan does not require regular payments of either principal and interest or interest only, the lender does not need to calculate an equivalent payment for consideration as part of the borrower’s monthly debt. If regular payments are required for the secured second mortgage, the payments must be included in the calculation of the debt-to-income ratio.

Minimum Borrower Contribution Requirements

The following table describes the minimum borrower contribution requirements for transactions that contain employer assistance.

LTV, CLTV, or HCLTV Ratio	**Minimum Borrower Contribution Requirement from Borrower’s Own Funds**	
80% or less	One- to four-unit principal residence	A minimum borrower contribution from the borrower’s own funds is not required. All funds needed to complete the transaction can come from employer assistance.
Greater than 80%	One-unit principal residence	A minimum borrower contribution from the borrower’s own funds is not required. All funds needed to complete the transaction can come from employer assistance.
	Two- to four-unit principal residence	The borrower must make a 5% minimum borrower contribution from their own funds. After the minimum borrower contribution has been met, employer assistance can be used to supplement the down payment, closing costs, and reserves (except for unsecured loans, which may not be applied to reserves). See B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements, for HomeReady mortgage minimum borrower contribution and down payment requirements.

Documentation Requirements

The lender must document:

- that the program is an established company program, not just an accommodation developed for an individual employee.
- the dollar amount of the employer's assistance.
- an unsecured loan from an employer with an award letter or legal agreement from the note holder and must disclose the terms and conditions of the loan.
- the terms of any other employee assistance being offered to the borrower (such as relocation benefits or gifts).
- that the borrower received the employer assistance funds directly from the employer (or through the employer-affiliated credit union).

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-4.3-09, Earnest Money Deposit (05/04/2022)

Introduction

This topic contains information on the earnest money deposit, including:

- Sales Contract Deposit
- Verification of Source of Funds
- Documentation for Receipt of the Deposit

Sales Contract Deposit

The deposit on the sales contract (earnest money) for the purchase of the security property is an acceptable source of funds for both the down payment and the closing costs. See B3-4.1-04, Virtual Currency for additional information.

Verification of Source of Funds

If the deposit is being used as part of the borrower's minimum contribution requirement, the lender must verify that the funds are from an acceptable source. See B3-4.2-01, Verification of Deposits and Assets.

A *Request for Verification of Deposit* (Form 1006 or Form 1006(S)) must indicate that the average balance for the past two months was large enough to support the amount of the deposit.

Bank statements must evidence that the average balance for the past two months was large enough to support the amount of the deposit. If a copy of the canceled deposit check is used to document the source of funds, the bank statements must cover the period up to (and including) the date the check cleared the bank account.

If it cannot be determined that these funds were withdrawn from the borrower's account, additional verification of the source and evidence that the funds have actually changed hands from the borrower to the seller, the real estate agent, the escrow agent, or the settlement attorney should be provided. Large earnest money deposits and deposits that exceed the amount customary for the area should be closely evaluated.

Documentation for Receipt of the Deposit

Receipt of the deposit must be verified by either a copy of the borrower's canceled check or a written statement from the holder of the deposit.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-04	May 04, 2022

B3-4.3-10, Anticipated Sales Proceeds (02/23/2016)

Introduction

This topic contains information on anticipated sales proceeds, including:

- Anticipated Sales Proceeds
- Determining the Amount of Net Proceeds
- Sales Proceeds Needed for Down Payment and Closing Costs
- Like-Kind Exchanges
- Employee Relocation

Anticipated Sales Proceeds

If the borrower's currently owned home is listed for sale but has not been sold, the lender may qualify the borrower on the basis of anticipated sales proceeds.

The lender must document the actual proceeds received by the borrower.

Determining the Amount of Net Proceeds

The following table describes how to determine the amount of net proceeds based on a borrower's anticipated equity.

Sales Price Established?	Net Proceeds Calculation
Yes	Sales Price – (Sales Costs + All Liens) = Estimated Proceeds
No	90% of Listing Price – All Liens = Estimated Proceeds **Note**: The 10% adjustment factor that is applied to the listing price must be changed depending on market conditions.

Sales Proceeds Needed for Down Payment and Closing Costs

If the proceeds from the sale of a currently owned home are needed for the down payment and closing costs on the new house, the lender must verify the source of funds by obtaining a copy of the settlement statement on the existing home before, or simultaneously with, the settlement on the new home, showing sufficient net cash proceeds to consummate the purchase of the new home.

Like-Kind Exchanges

Assets for the down payment from a "like-kind exchange," also known as a 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031.

Employee Relocation

When the borrower's employer assumes responsibility for paying off the existing mortgage in connection with a relocation plan, the lender must obtain a copy of the executed buy-out agreement to document the source of funds. A photocopy of a sales contract or a listing agreement is not considered an acceptable source of verification of proceeds from the sale.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-4.3-11, Trade Equity (12/16/2020)

Introduction

This topic contains information on trade equity, including:

- Trade Equity
- Calculating the Equity Contribution
- Documentation Requirements

Trade Equity

Trade equity is an acceptable source of funds to supplement the borrower's minimum borrower contribution provided the following requirements are met:

- The seller's equity contribution for the traded property must be a true-value consideration supported by a current appraisal.
- The borrower must make the minimum required contribution from their own funds unless:
  - the LTV or CLTV ratio is less than or equal to 80%; or
  - the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution. See B3-4.3-04, Personal Gifts; B3-4.3-06, Grants and Lender Contributions; and B3-4.3-08, Employer Assistance, for additional information.

These requirements apply to all transactions that involve property trades, including those that are evidenced by two separate contracts that have the buyer and the seller on one contract reversing roles on the second contract.

> **Note**: Trade equity is entered in the loan application as a credit to the transaction, which will reduce the borrower's required funds to close.

Calculating the Equity Contribution

The equity contribution is determined by subtracting the outstanding mortgage balance of the property being traded, plus any transfer costs, from the lesser of either the property's appraised value or the trade-in value agreed to by both parties.

For trade equity requirements for manufactured housing, see Section B5–2–03, Manufactured Housing Underwriting Requirements.

Documentation Requirements

For real property, the transfer deed must be recorded.

In addition, lenders must obtain the following:

- A search of the land records to verify the ownership of the property and to determine whether there are any existing liens on the property.
- Proof of title transfer and satisfaction of any existing mortgage liens for which the borrower was liable.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-07	December 16, 2020

B3-4.3-12, Rent Credit for Option to Purchase (04/01/2009)

Introduction

This topic contains information on rent credit for option to purchase, including:

- Rent Credit for Option to Purchase
- Documentation Requirements

Rent Credit for Option to Purchase

Rent credit for option to purchase is an acceptable source of funds toward the down payment or minimum borrower contribution. Borrowers are not required to make a minimum borrower contribution from their own funds in order for the rental payments to be credited toward the down payment.

Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property.

Documentation Requirements

The lender must obtain the following documentation:

- A copy of the rental/purchase agreement evidencing a minimum original term of at least 12 months, clearly stating the monthly rental amount and specifying the terms of the lease.
- Copies of the borrower's canceled checks or money order receipts for the last 12 months evidencing the rental payments.
- Market rent as determined by the subject property appraisal.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-4.3-13, Sweat Equity (04/15/2014)

Introduction

This topic contains information on sweat equity.

- Sweat Equity

Sweat Equity

Generally, sweat equity is not an acceptable source of funds for the down payment, closing costs, and reserves, since it is difficult to accurately assess the contributory value of sweat equity work. Only for specific transactions and if all eligibility requirements are met does Fannie Mae consider sweat equity to be an acceptable source of funds.

For further detail on the specific transactions and the eligibility requirements to be met, see Chapter B5–6, HomeReady Mortgage.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-4.3-14, Bridge/Swing Loans (04/01/2009)

Introduction

This topic contains information on bridge/swing loans.

- Bridge/Swing Loans

Bridge/Swing Loans

A bridge (or swing) loan is an acceptable source of funds provided the following requirements are met:

- The bridge loan cannot be cross-collateralized against the new property.
- The lender must document the borrower's ability to successfully carry the payments for the new home, the current home, the bridge loan, and other obligations.

Fannie Mae does not have a specified limitation on the term of bridge loans. See B3-6-05, Monthly Debt Obligations, for more information about how to treat the resulting contingent liability.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-4.3-15, Borrowed Funds Secured by an Asset (10/30/2009)

Introduction

This topic contains information on borrowed funds secured by an asset, including:

- Borrowed Funds Secured by an Asset
- Secured Loans as Debt
- Reducing the Asset by the Amount Borrowed
- Documentation Requirements

Borrowed Funds Secured by an Asset

Borrowed funds secured by an asset are an acceptable source of funds for the down payment, closing costs, and reserves, since borrowed funds secured by an asset represent a return of equity.

Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, or financial assets, such as savings accounts, certificates of deposit, stocks, bonds, and 401(k) accounts.

Secured Loans as Debt

When qualifying the borrower, the lender must consider monthly payments for secured loans as a debt.

If a secured loan does not require monthly payments, the lender must calculate an equivalent amount and consider that amount as a recurring debt.

When loans are secured by the borrower's financial assets, monthly payments for the loan do not have to be considered as long-term debt.

Reducing the Asset by the Amount Borrowed

If the borrower uses the same financial asset as part of their financial reserves, the lender must reduce the value of the asset by the amount of proceeds and related fees for the secured loan.

Documentation Requirements

The lender must document the following:

- the terms of the secured loan,
- evidence that the party providing the secured loan is not a party to the sale, and
- evidence that the funds have been transferred to the borrower.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-4.3-16, Credit Card Financing and Reward Points (08/04/2021)

Introduction

This topic contains information on the following:

- Credit Card Financing
- Credit Card Reward Points

Credit Card Financing

Fannie Mae permits certain costs that must be paid early in the application process, such as lock-in fees, origination fees, commitment fees, credit report fees, and appraisal fees, to be charged to the borrower's credit card because these fees do not represent extraordinary amounts and the credit card debt is considered in the borrower's total monthly debt-to-income ratio. Borrowers are not required to pay off these credit card changes before closing. Under no circumstances may credit card financing be used for the down payment.

Lenders may allow credit card financing for the payment of common and customary fees paid outside of closing up to a maximum of 2% of the loan amount if the lender:

- confirms that the borrower has sufficient liquid funds (financial reserves) to cover these charges (in addition to funds needed for other closing costs and the down payment that they will be paying); or
- recalculates the credit card payment, per B3-6-05, Monthly Debt Obligations, to account for the new charges and includes the updated payment in the qualifying ratio calculation.

For DU, lenders must apply this policy manually. The fees charged to the borrower's credit card must be included as a closing cost in the loan application, and removed from any Borrower Paid Fees entered as an other credit for the fees paid outside of closing. Alternatively, the monthly credit card payment in the liabilities section of the loan application must be increased to include the charges if not reflected in the credit report.

Credit Card Reward Points

Fannie Mae permits credit card reward points as acceptable funds for use towards closing costs, down payment and financial reserves, provided the reward points are converted to cash prior to the closing of the loan. The following requirements apply:

- If the credit card reward points are converted to cash and deposited into the borrower's depository account (for example, checking or savings), no additional documentation is required unless the deposit is considered a large deposit. In this event, the lender must follow the requirements in *Evaluating Large Deposits* in B3-4.2-02, Depository Accounts .
- If the credit card reward points are converted to cash, but not deposited into a borrower's depository account, the lender must provide evidence the reward points were
  - available to the borrower prior to the conversion, including verification of the cash value (for example, credit card reward statement prior to conversion); and
  - converted to cash prior to the closing of the loan.

For DU loan casefiles, if the reward points are not already converted to cash and deposited into a depository account, lenders must enter the cash value of the reward points as an Asset with an Account Type of "Other" and a description of "Liquid Asset". See B3-4.4-02, Requirements for Certain Assets in DU for more information.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-07	August 04, 2021
Announcement SEL-2020-07	December 16, 2020

B3-4.3-17, Personal Unsecured Loans (09/20/2010)

Introduction

This topic contains information on personal unsecured loans.

- Personal Unsecured Loans

Personal Unsecured Loans

Personal unsecured loans are not an acceptable source of funds for the down payment, closing costs, or financial reserves.

Examples of personal unsecured loans include signature loans, lines of credit on credit cards, and overdraft protection on checking accounts.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-4.3-18, Sale of Personal Assets (12/16/2020)

Introduction

This topic contains information on the sale of personal assets, including:

- Sale of Personal Assets
- Documentation Requirements

Sale of Personal Assets

Proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the asset is not a party to the property sale transaction or the mortgage financing transaction.

Documentation Requirements

The lender must document the following:

- The borrower’s ownership of the asset for all asset types that are titled assets, for example automobile title.
- The value of the asset, as determined by an independent and reputable source, if the proceeds represent more than 50% of the total monthly income used in qualifying. The lender must use the lesser of the estimated value (as determined by the independent source) or actual sales price when determining the amount of funds for the transaction. For example, a borrower plans to sell their vehicle. The value as determined by an independent source is $10,000; the sales price of the vehicle is $12,000. $10,000 can be added to the borrower’s available funds even if the sale has already occured.
- The transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser.
- The borrower’s receipt of the sale proceeds from documents such as deposit slips, bank statements, copies of the purchaser’s canceled check or an equivalent payment source.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-07	December 16, 2020

B3-4.3-19, Cash Value of Life Insurance (05/27/2014)

Introduction

This topic contains information on the cash value of life insurance, including:

- Cash Value of Life Insurance and Debt-to-Income Ratios
- Documenting Borrower Receipt of Funds

Cash Value of Life Insurance and Debt-to-Income Ratios

Net proceeds from a loan against the cash value or from the surrender of a life insurance policy are an acceptable source of funds for the down payment, closing costs, and reserves.

The lender must assess repayment or additional obligation considerations to determine the impact on borrower qualification or reserves.

If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a borrower’s life insurance policy do not have to be considered in the total debt-to-income ratio.

If additional obligations are indicated, the obligation amount must be factored into the total debt-to-income ratio, or subtracted from the borrower’s financial reserves.

Documenting Borrower Receipt of Funds

If the funds are needed for the down payment or closing costs, lenders must document the borrower’s receipt of the funds from the insurance company by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer. If the cash-value of the life insurance is being used for reserves, the cash-value must be documented but does not need to be liquidated and received by the borrower.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-4.3-20, Anticipated Savings and Cash-on-Hand (04/01/2009)

Introduction

This topic contains information on:

- Anticipated Savings
- Cash-on-Hand

Anticipated Savings

The lender may preliminarily qualify a borrower on the basis that anticipated savings will be sufficient to meet the funds needed for closing. The lender must verify that savings are actually accumulated by the borrower before loan closing.

The estimate for a borrower’s anticipated savings must be realistically developed. To calculate potential saved funds, the lender should reduce the borrower’s expected after-tax income for the expected savings period by existing housing expenses, monthly debt expenses based on data from the credit report, and expected living expenses, such as food, transportation, etc.

Cash-on-Hand

Cash-on-hand is not an acceptable source of funds for the down payment or closing costs.

For HomeReady mortgages, cash-on-hand may be considered an acceptable source of funds for the down payment and closing cost. See Chapter B5–6, HomeReady Mortgage.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-4.3-21, Borrower's Earned Real Estate Commission (04/05/2023)

Introduction

This topic contains information on the use of borrower's earned real estate commission as eligible funds for the subject transaction, including:

- Earned Real Estate Commission
- Documentation Requirements

Earned Real Estate Commission

Earned real estate commission refers to the borrower's portion of a real estate commission earned from the sale of the subject property being purchased when the borrower is acting as their own real estate agent. Lenders may use the borrower's earned real estate commission as an eligible source of funds for down payment and closing costs provided the borrower is a licensed real estate agent and will receive a sales commission from the purchase of the subject property.

Documentation Requirements

The lender must document the following:

- the settlement statement must reflect the commission earned by the borrower, and
- the earned commission amount must be credited towards the mortgage loan.

> Note: For DU loan casefiles, earned real estate commission must be entered as a Credit Type of "Other" in Section 2b of the online loan application.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	**Issue Dates**
Announcement SEL-2023-03	April 05, 2023

Section B3-4.4, DU Requirements for Asset Assessment

B3-4.4-01, DU Asset Verification (12/16/2020)

Introduction

This topic contains information on asset verification for loans underwritten with DU, including:

- Liquid Assets
- Non-Liquid Assets
- Reserve Requirements
- Asset Values in the DU Underwriting Findings Report
- Non-Occupant Borrower Asset Requirements

Liquid Assets

DU analyzes the value of liquid assets entered in the loan application in its risk assessment. Assets may be excluded from the loan application if the borrower can qualify without them.

DU considers the following assets liquid assets: Bonds, Bridge Loan Proceeds, Cash-on-Hand (for certain HomeReady loans only), Cash Value of Life Insurance, Certificate of Deposit, Checking, Gift (not deposited), Gift of Equity, Grant (not deposited), Individual Development Account, Money Market, Mutual Fund, Net Equity, Other Liquid Asset, Proceeds from Real Estate Property to be sold on or before closing, Proceeds from Sale of Non-Real Estate Asset, Retirement, Savings, Secured Borrowed Funds, Stocks, Stock Options (vested), and Trust Account.

> **Note:** Some of these asset types may not be available in the lender’s loan origination system.

Non-Liquid Assets

DU does not consider the amount of non-liquid assets. Non-liquid assets do not have to be verified, and will not be identified in a verification message.

DU considers the following assets non-liquid assets: Cash Deposit on Sales, Net Worth of Business, Other Non-Liquid Asset, and Unsecured Borrowed Funds.

> **Note:** Some of these asset types may not be available in the lender’s loan origination system.

Reserve Requirements

For loan casefiles underwritten with DU, DU will determine the reserve requirements based on the overall risk assessment of the loan casefile and the minimum reserves that may be required for the transaction. Reserves may be considered a compensating factor in DU's risk analysis, and may serve to improve the underwriting recommendation.

Refer to the following topics for additional requirements related to minimum reserves:

- B2-2-03, Multiple Financed Properties for the Same Borrower
- B3-4.1-01, Minimum Reserve Requirements

Asset Values in the DU Underwriting Findings Report

The DU Underwriting Findings report will identify the following values:

- Total Available Assets: the total of all borrower(s)' liquid assets entered into DU;
- Funds Required to Close: includes the cash needed to complete the transaction plus any debts marked paid by closing on purchase or limited cash-out refinance transactions, other than subject property mortgage(s);
- Reserves Required to be Verified: the amount of reserves that must be verified;
- Total Funds to be Verified: the sum of Funds Required to Close and Reserves Required to be Verified; and
- Excess Available Assets, not required to be verified by DU: liquid assets that DU is not requiring the lender to verify.

The Excess Available Assets, not required to be verified by DU (Excess Available Assets) amount represents the amount of assets remaining after subtracting the Total Funds to be Verified from the Total Available Assets. Excess Available Assets do not generally need to be verified.

Non-Occupant Borrower Asset Requirements

Assets that are owned by a non-occupant borrower can be included in the 5% minimum borrower contribution requirement (when applicable), and those funds must be entered in the loan application. Total liquid assets for the occupying borrower and non-occupant borrower are included in DU's calculation of total available assets.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2018-03	April 03, 2018

B3-4.4-02, Requirements for Certain Assets in DU (06/01/2022)

Introduction

This topic contains information about certain asset policies in DU, including:

Asset Verification Documentation

When DU requires assets to be verified, DU will indicate the minimum verification documentation requirements necessary for the lender to process the loan application. This level of documentation may not be adequate for every borrower and every situation. The lender must determine whether additional documentation is warranted.

DU will not require documentation of assets for refinance transactions when the total funds to be verified are $500 or less.

Depository Assets

For depository assets (checking and savings accounts, money market funds, and certificates of deposit), DU will require the following:

- two consecutive monthly bank statements (60 days of account activity) for all purchase transactions, or
- one monthly statement (30 days of account activity) for all limited cash-out and cash-out refinance transactions.

Monthly bank statements must be dated within 45 days of the initial loan application date.

Quarterly bank statements must be dated within 90 days of the initial loan application date, and the lender must confirm that the funds in the account have not been transferred to another asset account that is verified with more current documentation.

A *Verification of Deposit* (Form 1006 or Form 1006(S)) can be obtained in place of bank statements.

When DU validates assets, DU issues a message indicating the acceptable documentation. Compliance with the DU message satisfies the requirement for documenting assets. This documentation may differ from the requirements described above. See B3-2-02, DU Validation Service.

Bridge Loan

Enter the amount of a bridge (or swing) loan in the asset section 2a of the loan application. Do not include the amount of the bridge loan in any other liquid asset. (For example, do not enter the amount of the loan both as a bridge loan and in a checking account, even if the loan funds have been deposited.)

Bridge loans should also be considered in the net equity calculation for properties that are pending sale. (In other words, the amount of the bridge loan should be subtracted from the net proceeds to avoid counting this asset twice.)

See B3-4.3-14, Bridge/Swing Loans for additional information.

> **Note**: It may also be necessary to enter the bridge loan and corresponding monthly payment as a recurring liability in the liabilities section of the loan application. See the bridge loan liability discussion in B3-6-05, Monthly Debt Obligations.

Cash Deposit on Sales Contract (Earnest Money)

Earnest money is entered in Section 2b in the loan application. It is treated as a credit to the transaction and will reduce the borrower's required funds to close as reflected in Section L4. The earnest money check is assumed to have cleared the borrower's bank account and must not be reflected in the balance of an asset account.

See B3-4.3-09, Earnest Money Deposit, for documentation requirements.

Gifts and Grants

Gifts or donations from entities (grants) are permitted and documented in accordance with B3-4.3-04, Personal Gifts, and B3-4.3-06, Grants and Lender Contributions.

Gifts and grants are entered in Section 4d of the loan application and identified as being deposited or not deposited. Gifts and grants that are deposited have been received by the borrower and the value should be included in another asset account. The amount of the gift or grant is not included in available funds.

Gifts and grants that are not deposited are not included in another asset account. The amount of the gift is included in available funds.

Gifts of Equity

Enter a gift of equity in Section 4d of the loan application.

A gift of equity must meet the gift of equity requirements defined in B3-4.3-05, Gifts of Equity.

Net Equity from Properties Pending Sale

See B3-4.3-10, Anticipated Sales Proceeds, for additional information.

The lender must calculate the net equity outside of DU for a property marked Pending Sale in Section 3 of the loan application. The amount is entered in the asset section (2b) using the asset type Proceeds from Real Estate Property to be Sold on or Before Closing.

If a bridge loan is obtained, the amount of the bridge loan is entered as an asset and must be subtracted from net equity before entry in the loan application.

When the net equity is positive, DU will add the amount to the funds available for closing. When the net equity is negative, DU will subtract the amount from the funds available for closing.

Proceeds from Sold Properties

Proceeds from properties that have already been sold must be included in a depository account, such as a checking or savings account.

Other Liquid Assets

Enter the value of personal assets that will be converted to a liquid asset (or sold) prior to closing in Section 2b using the asset type Proceeds from Sale of Non-Real Estate Asset. (See B3-4.3-18, Sale of Personal Assets, for additional information.) Life insurance that will be used for the transaction is entered in Section 2a using the account type Cash Value of Life Insurance. An Other Asset (liquid) may be entered for other types of assets that will be used for the transaction, such as pending tax refunds that will be received prior to closing.

A verification message will require evidence of the value of the asset and confirmation that the asset was converted to cash.

Secured Borrowed Funds

Borrowers can borrow against an asset they own, such as a 401(k) account or real estate, according to the requirements of B3-6-05, Monthly Debt Obligations. The amount of the secured loan should be entered in Section 2b using the asset type Secured Borrowed Funds. The secured loan amount should be subtracted from the market value of the actual asset, and the net asset value should be entered. For example, if the borrower has a vested value, less taxes and penalties, of $30,000 in a 401(k) account and borrows $10,000 against the 401(k), enter $10,000 as secured borrowed funds and enter $20,000 as retirement funds.

A loan that is secured against a liquid asset owned by the borrower (such as a 401(k) or mutual fund) does not have to be entered as a liability in the loan application if the appropriate documentation is provided.

Loans that are secured against real estate, or any other non-liquid asset, must be entered as the applicable liability (for example, as a mortgage).

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-05	June 01, 2022
Announcement SEL-2022-01	February 02, 2022
Announcement SEL-2021-06	July 07, 2021
Announcement SEL-2020-07	December 16, 2020

Chapter B3-5, Credit Assessment

Introduction

This chapter describes credit assessment for qualifying, underwriting, and documentation purposes.

Section B3-5.1, Credit Scores

B3-5.1-01, General Requirements for Credit Scores (10/05/2022)

Introduction

This topic describes Fannie Mae's requirements for borrower credit scores, including:

- Credit Score Versions
- Minimum Credit Score Requirements
- Exceptions to the Minimum Credit Score Requirement
- DU Credit Score Requirements

- Delivery of Credit Scores
- Loan-Level Price Adjustments Based on Credit Score

Credit Score Versions

Credit scores are required for most loans purchased or securitized by Fannie Mae. The classic FICO credit score is produced from software developed by Fair Isaac Corporation and is available from the three major credit repositories. Fannie Mae requires the following versions of the classic FICO score for both DU and manually underwritten mortgage loans:

- Equifax Beacon® 5.0;
- Experian®/Fair Isaac Risk Model V2SM; and
- TransUnion FICO® Risk Score, Classic 04.

The lender must request these FICO credit scores for each borrower from each of the three major credit repositories when they order the three in-file merged credit report. If the borrower's credit file includes complete and accurate information to ensure the validity of the credit score, the lender does not need to further evaluate the borrower's creditworthiness.

> **Note**: The credit report will indicate if a credit score could not be produced due to insufficient credit. The credit report must be maintained in the loan file, whether the report includes traditional credit and a credit score or indicates that a credit score could not be produced due to insufficient or frozen credit.

Minimum Credit Score Requirements

The following table describes the minimum credit score requirements and how to determine the loan-level credit score that applies to loan eligibility.

Transaction Type	Minimum Credit Score
Manually underwritten loans	The requirements are published in the *Eligibility Matrix* and are based on the credit score and the highest of the LTV, CLTV, or HCLTV ratios (as applicable); loan purpose; number of units; amortization type; and DTI ratio. To determine the credit score that applies for loan eligibility, use the following: • Loans with one borrower - representative credit score, • Loans with more than one borrower - average median credit score. The minimum credit score that applies for loan eligibility is: 620 — fixed-rate loans 640 — ARMs
DU loan casefiles	DU will determine whether the minimum credit score is met using the following: • Loan casefiles with one borrower - representative credit score, • Loan casefiles with more than one borrower ∘ the representative score for RefiNow loans and loans that require a minimum credit score other than 620 (such as loans with multiple financed properties); or ∘ average median credit score. The minimum credit score that applies to eligibility of the loan casefile is: 620 — fixed-rate loans and ARMs
Mortgage loans insured or guaranteed by a federal government agency (HUD, FHA, VA, and RD)	The minimum representative credit score is 620.
Loans delivered pursuant to any variance contained in the Lender Contract	Manually underwritten loans: Higher of 620 representative credit score or average median credit score, as applicable, or the minimum representative credit score required by the variance. DU loan casefiles: Higher of 620 based on the score used by DU or the minimum representative score required by the variance.

See B3-5.1-02, Determining the Credit Score for a Mortgage Loan for additional information.

Exceptions to the Minimum Credit Score Requirement

Certain transactions are not subject to the minimum credit score requirement, including:

- loans where no borrower has a credit score (see Section B3–5.4, Nontraditional Credit History);
- manually underwritten HomeReady mortgage loans that include a borrower with a low credit score (see B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements); and
- high LTV refinance loans, except for those loans underwritten using the Alternative Qualification Path.

DU Credit Score Requirements

Credit scores are not an integral part of DU's risk assessment because DU performs its own analysis of the credit report data. However, lenders must request credit scores for each borrower from each of the three credit repositories when they order the three in-file merged credit report, described in B3-5.2-01, Requirements for Credit Reports. If one or two of the credit repositories do not contain any credit information for the borrowers who have traditional credit, the credit report is still acceptable as long as

- credit data is available from one repository,
- a credit score is obtained from that repository, and
- the lender requested a three in-file merged report.

> **Note**: When a loan casefile is submitted to DU for a borrower with a credit score, but only medical tradelines are reported on the credit report, the loan casefile will receive an Out of Scope recommendation. The lender can manually underwrite the loan casefile in accordance with the *Selling Guide*.

If the transaction does not meet the above requirements, refer to Section B3–5.4, Nontraditional Credit History, for underwriting and eligibility requirements for DU loans in which one or more borrowers do not have a credit score.

Frozen Credit Requirements

If the borrower’s credit information is frozen at one of the credit repositories for borrowers who have traditional credit, the credit report is still acceptable as long as

- credit data is available from two repositories,
- a credit score is obtained from at least one of those two repositories, and
- the lender requested a three in-file merged report.

Loans for borrowers with credit data frozen at two or more of the credit repositories will not be eligible whether underwritten manually or in DU.

Delivery of Credit Scores

Loan Delivery collects credit score data for each borrower and also at the loan level. Lenders are required to deliver the representative credit score for all loans. This applies even if the average median credit score is used for loan eligibility and may result in delivery of loans with representative scores less than 620. For additional information, see the Loan Delivery Job Aid: Credit Scores.

Loan-Level Price Adjustments Based on Credit Score

Loan-level price adjustments (LLPAs) are assessed based on the representative credit score for the loan, in addition to other eligibility and loan features. See the *Loan-Level Price Adjustment (LLPA) Matrix* for additional information about LLPAs, including information about how LLPAs are assessed for loans that include borrowers without a credit score.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-09	October 05, 2022
Announcement SEL-2021-08	September 01, 2021
Announcement SEL-2020-04	August 05, 2020
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-09	December 04, 2018

B3-5.1-02, Determining the Credit Score for a Mortgage Loan (10/05/2022)

Introduction

This topic contains requirements for determining the loan-level credit score, including:

- Representative Credit Score
- Average Median Credit Score
- Foreign Credit Reports and Credit Scores

Representative Credit Score

The representative credit score for the loan is determined based on the credit scores of each borrower and is used to determine loan eligibility for manually underwritten loans with only one borrower, certain DU loan casefiles, and for pricing purposes (i.e., assessing LLPAs) on all loans. Follow these steps to calculate the representative credit score for a loan:

Step	Description
1	Fannie Mae recommends obtaining at least two credit scores for each borrower.
2	Select a single score for each borrower. • When two credit scores are obtained, choose the lower score. • When three credit scores are obtained, choose the middle score. (If two of the three scores are the same, choose the middle of the three scores. For example: 700, 680, 680 = 680; 700, 700, 680 = 700)
3	If there is only one borrower, the single score for the borrower is the representative credit score for the loan. If there are multiple borrowers, determine the applicable credit score for each individual borrower and select the lowest applicable score from the group as the representative credit score for the loan. If there is a borrower who does not have a credit score, determine the representative credit score for the loan based on the credit scores of the other borrowers on the loan.

Average Median Credit Score

For certain transactions, the average median credit score is used in place of the representative credit score to determine whether the minimum credit score requirement is met.

The following examples demonstrate how to calculate the average median credit score for eligibility purposes.

Borrowers on the Loan Application	Step 1: Determine each borrower's median score	Step 2: Average the median scores to determine the score for the loan
Borrower	Scores: 590, 605, 648	Average: Not applicable Representative credit score = 605
Borrower 1 Borrower 2	Scores: 590, 605, 648 Median = 605 Scores: 661, 693, 693 Median = 693	Average: (605+693)/2 = 649 Representative credit score = 605
Borrower 1 Borrower 2	Scores: 590, 605 Median = 590 Scores: 661, 693, 693 Median = 693	Average: (590+693)/2 = 642 Representative credit score = 590

Foreign Credit Reports and Credit Scores

With the exception of loan casefiles underwritten through DU, Fannie Mae permits the lender to use a credit report from a foreign country to document a borrower's credit history. (See B3-5.2-01, Requirements for Credit Reports.) If a credit score is provided with the foreign credit report it cannot be used to establish eligibility, or be delivered to Fannie Mae unless the credit score is the classic FICO, as required by B3-5.1-01, General Requirements for Credit Scores. See Section B3–5.4, Nontraditional Credit History, for requirements that apply when a loan includes a borrower without an acceptable credit score.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-09	October 05, 2022
Announcement SEL-2021-08	September 01, 2021

Section B3-5.2, Credit Reports

B3-5.2-01, Requirements for Credit Reports (06/07/2023)

Introduction

This topic describes requirements for credit reports, including:

Overview

The lender must obtain a credit report for each borrower on the loan application who has an individual credit record. The credit report must be based on data provided by the national credit repositories. Acceptable credit report formats are described in B3-5.2-02, Types of Credit Reports. For credit report requirements in DU see below.

A nontraditional mortgage credit report or other form of alternative credit verification may be used if the borrower

- does not have sufficient credit to enable the development of a credit score, or
- does not use the type of credit that is reported to credit repositories.

See Section B3-5.4, Nontraditional Credit History for additional information.

General Requirements

Credit reports must meet the following general requirements:

- The report must include both credit and public record information for each locality in which the borrower has resided during the most recent two-year period. If the lender relies on credit reports from foreign countries to document borrower credit histories, the credit report must meet the requirements and standards for domestic reports, and must be completed in English or include an English translation. (See B3-5.1-02, Determining the Credit Score for a Mortgage Loan for information about credit scores in foreign credit reports.)

- The report must include all discovered credit and legal information that is not considered obsolete under the Fair Credit Reporting Act. Although the Fair Credit Reporting Act currently specifies that credit information is not considered obsolete until after seven years, and bankruptcy information after ten years, Fannie Mae requires only a seven-year history to be reviewed for all credit and public record information.
- The report must be an original report, with no erasures, white-outs, or alterations. An automated credit report or one that is transmitted by fax is considered to be an “original” report.
- The report must include the full name, address, and telephone number of the credit reporting agency, as well as the names of the national repositories that the agency used to provide information for the report.
- The credit reporting agency must make responsive statements about all items on the credit report—indicating “unable to verify” or “employer refused to verify,” when appropriate.

Public Records Information

The report must include all available public records information, identify the sources of the public records information, and disclose whether any judgments, foreclosures, tax liens, or bankruptcies were discovered (with these adverse items reported in accordance with the Fair Credit Reporting Act and to the extent reported by consumer reporting agencies participating in the National Consumer Assistance Plan).

Acceptable and Unacceptable Changes

Collected credit report information should not be changed. However, it is permissible to delete duplicate information, translate codes to plain language, and make appropriate adjustments to resolve conflicting information to ensure the clarity of the report.

The following types of changes are unacceptable:

- deleting tradelines that pertain to a borrower’s bankruptcy,
- adding a payment amount to a creditor’s tradeline when the creditor does not require a payment, or
- restricting information collection to a shorter time period than Fannie Mae requires.

Credit repositories should only change the information called to its attention by a creditor or a party that is not associated with either the real estate sale or purchase transaction or the mortgage financing.

Required Creditor Information

For each debt listed, the report must provide:

- the creditor’s name,
- the date the account was opened,
- the amount of the highest credit,
- the current status of the account,

- the required payment amount,
- the unpaid balance, and
- a payment history.

The report must indicate the dates that accounts were last updated with the creditors. Each account with a balance must have been checked with the creditor within 90 days of the date of the credit report.

Format for Reporting Payment History

All data must be presented in a format that is easy to read and that is understandable without the need for code translations.

The report must list the historical status of each account. This status must be presented in a "number of times past due" format and include the dates of the delinquencies.

The preferred format is "0 x 30, 0 x 60, 0 x 90 days" late. The following formats are also acceptable:

- "Rl, R2, R3, …," if it also gives historical negative ratings, such as "was R3 in 6/05."
- a consecutive numbering sequence, such as "0001000 …," provided the meaning is clear from the report.

Statements such as "current," "satisfactory," or "as agreed" are not satisfactory by themselves.

Inquiries

The report must generate an inquiry that will appear on future credit reports and must list all inquiries that were made in the previous 90 days.

Unreported Debts

If the credit report does not include a reference for each significant open debt on the application, the lender must obtain a separate written verification for each unreported debt. The lender also needs to verify separately accounts listed as "will rate by mail only" or "need written authorization."

Assessing Borrower Credit Management Skills

The borrower's credit management skills can be assessed by analyzing repayment patterns, credit utilization, and level of experience in using credit.

Credit Report Requirements in Desktop Underwriter

Lenders are required to request a three in-file merged credit report from one of the credit information providers listed on Fannie Mae's website. The credit report used by DU in the final loan casefile submission must be maintained in the mortgage loan file. A DU observation message will identify all of the credit reports evaluated by DU during the loan submission. The version of the credit report received by DU must meet the requirements in this topic and be one that supports trended credit data. Trended credit data is expanded information on a borrower's credit history at a tradeline level on several monthly factors, including: amount owed, minimum payment, and payment made.

> **Note**: The borrower's present address must be within the U.S., U.S. territories, or an APO, FPO, or DPO military address located within the U.S. in order to obtain a credit report that is compatible with DU loan casefile requirements. Borrowers with foreign credit reports must be manually underwritten.

Credit Score Requirements

See B3-5.1-01, General Requirements for Credit Scores, for additional information about credit report requirements related to credit scores.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-05	June 07, 2023
Announcement SEL-2022-01	February 02, 2022

B3-5.2-02, Types of Credit Reports (12/19/2017)

Introduction

This topic contains information on the types of credit reports that are accepted by Fannie Mae, including:

- In-File Credit Reports
- Automated Merged Credit Reports
- Residential Mortgage Credit Reports

In-File Credit Reports

An in-file credit report provides credit and public record information obtained from one or more credit repositories. The report contains "as is" information, which typically has not been updated or re-verified as a result of the credit inquiry.

The report must meet the following requirements:

- The report should include all information from three different credit repositories, or two repositories, if:
  - that is the extent of the data available for the borrower, or
  - the borrower's credit information is frozen at one credit repository.
- If only one in-file credit report is available for a borrower, this is acceptable if the lender is able to obtain a credit score for the borrower and the lender requested information from three credit repositories.
- If the report does not include a reference for each significant debt reported by the borrower on the loan application, the lender must obtain a separate written verification for each unreported (or unrated) debt.
- If the report lists accounts that were not checked with the creditor within 90 days of the date of the in-file report, the lender must obtain an updated credit report or a separate written verification for those accounts.

Automated Merged Credit Reports

An automated merged credit report combines the in-file credit reports from multiple repositories into a single report. A joint merged credit report includes all credit repository credit data on more than one individual applicant.

The report must meet the following requirements:

- The report must include all information from three different credit repositories, or two repositories, if:
  - that is the extent of the data available for the borrower, or
  - the borrower's credit information is frozen at one credit repository.
- If information from only one credit repository is available, this is acceptable if the lender is able to obtain a credit score for the borrower and the lender requested information from three different credit repositories.
- The report cannot be provided by a credit reporting agency that is affiliated with the lender in any way.
- The report must include all information reported for the borrower from the in-file credit reports.
- The report must identify the repositories that were used for the in-file credit reports.
- The report does not have to repeat duplicate information that is in in-file credit reports. However, if duplicate information is not exactly the same on each report, the automated merged report must either repeat the information or include the most derogatory of the duplicate information that pertains to payment history and/or current payment status.

Residential Mortgage Credit Reports

A residential mortgage credit report is a detailed account of the borrower's credit, employment, and residency history, as well as public records information.

The report must meet the following requirements:

- The credit reporting agency must contact at least two national repositories of accumulated credit records for each locality in which the borrower has lived during the most recent two-year period.
- All information must be obtained from, or verified by, sources other than the borrower. When co-borrowers have individually obtained credit, separate repository inquiries are necessary, although the results of both reports may be combined in one report, as long as the report clearly indicates that this has been done.
- The credit reporting agency must verify, either in writing or by telephone, the borrower's current employment and income (if it can be obtained). If the borrower has changed jobs in the past two years, the credit report also must mention the borrower's previous employment and income.
- The report must include a positive statement that the employment was verified, the date of the verification, and the name of the individual who confirmed the employment. If this information was not obtained by an employer interview, the credit reporting agency must indicate why that was not done.
- The report must include the name of the party who ordered the report. If another party paid for the report, the credit report must provide that party's name, unless the lender ordered the report and the billed party has a documented agent or corporate relationship with the lender.
- The original report must be delivered to the office of the party who requested it, using any means acceptable under the Fair Credit Reporting Act or other similar regulations, such as sending it through the U.S. postal system, by messenger, over a fax machine, or through other automated means.
- The report must include a certification that it meets the standards for a residential mortgage credit report.

When the credit reporting agency has incomplete information, discovers that the borrower might not have disclosed all information that should be found in the public records, or obtains other information that indicates the possible existence of undisclosed credit records, the credit reporting agency must interview the borrower(s) to obtain additional information that is needed to provide an accurate report or perform additional research to verify whether the purported undisclosed records actually exist.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-5.2-03, Accuracy of Credit Information in a Credit Report (07/25/2017)

Introduction

This topic contains information on the following:

- Accuracy of Credit Information in a Credit Report
- Disputed Tradelines

Accuracy of Credit Information in a Credit Report

For all mortgage loans (including DU loan casefiles and manually underwritten loans), the lender is responsible for reviewing the credit report, as well as all credit information, to determine that the credit report meets Fannie Mae's requirements and that the data evaluated by DU was accurate.

If a borrower indicates that any significant information in the credit file is inaccurate—such as reported accounts that do not belong to the borrower or derogatory information that is reported in error—the lender should carefully review the credit information with the borrower, then request the credit reporting company that provided the information to confirm its accuracy.

Disputed Tradelines

Manually Underwritten Loans

If the borrower has disputed information in their credit file, and the credit reporting company confirms that the disputed information is incorrect or incomplete and underwriting the loan needs to be completed before the credit files can be corrected, the lender cannot use the credit score(s) when manually underwriting the loan. Instead, the credit risk assessment must be based on a review of the borrower’s traditional credit history.

If there are multiple disputed tradelines or a dispute on a mortgage tradeline, the lender should obtain correspondence directly from the borrower indicating the reason for the dispute. The aspect of the tradeline–such as balance and payment history–that is being disputed is of particular interest when considering the impact to the borrower’s overall credit profile.

The lender is responsible for determining whether the borrower’s explanation is reasonable and/or whether additional documentation (such as canceled checks) is necessary to disprove the adverse information. Lenders are not required to investigate disputed medical tradelines.

DU Loans

For loan casefiles underwritten through DU, DU will indicate if the lender is required to investigate the disputed account to determine if the account belongs to the borrower and confirm the accuracy and completeness of the information reported on the account.

See B3-2-09, Erroneous Credit Report Data; B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report; and B3-5.3-09, DU Credit Report Analysis for additional information.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Section B3-5.3, Traditional Credit History

B3-5.3-01, Number and Age of Accounts (04/01/2009)

Introduction

This topic contains information on the number and age of accounts.

- Number and Age of Accounts

Number and Age of Accounts

The lender must review the borrower's credit report to determine whether they have an older established credit history or a newly established credit history, and whether there are a significant number of recently opened accounts or a mix of new accounts and older accounts.

Credit histories that include older, established accounts generally represent lower credit risk. However, an older, established credit history that includes a significant number of recently opened accounts may indicate that the borrower is overextended, and thus will represent a higher credit risk.

A newly established credit history does not automatically represent a higher credit risk, since making payments as agreed on newly opened accounts represents less of a risk than not making payments as agreed on older, established accounts.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-5.3-02, Payment History (04/01/2009)

Introduction

This topic contains information on the borrower's payment history.

- Payment History

Payment History

The lender must review the borrower's credit report to determine the current status of each credit account (including mortgage accounts), the timeliness of payments, and the frequency, recency, and severity of any delinquent payments.

- Credit histories that include no late payments, collection or charged-off accounts, foreclosures, deeds-in-lieu, bankruptcies, or other public records information represent a lower credit risk.
- Credit histories that include recent late payments represent a higher credit risk than those with late payments that occurred more than 24 months ago. When there are payments that were 30, 60, or 90 days (or longer) past due, the lender must determine whether the late payments represent isolated incidences or frequent occurrences. Delinquent payments must be evaluated in the context of the borrower's overall credit history, including the number and age of accounts, credit utilization, and recent attempts to obtain new credit. For example, a credit history that includes delinquent payments along with recent inquiries and a high balances-to-limits ratio indicates a high credit risk.
- Credit histories that include foreclosures, deeds-in-lieu, and public records information (such as bankruptcies, judgments, and liens) represent a higher credit risk. The greater the number of such incidences and the more recently they occurred, the higher the credit risk.

For information about mortgage payment history, see B3-5.3-03, Previous Mortgage Payment History.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-5.3-03, Previous Mortgage Payment History (07/25/2017)

Introduction

This topic contains information on previous mortgage payment history requirements, including:

- Documenting Previous Mortgage History
- Standard Mortgage Verifications from Servicers
- Existing Mortgage Payment Requirements
- Excessive Mortgage Delinquency

Documenting Previous Mortgage History

The lender must review the borrower's credit report to determine the status of all mortgage accounts. If a borrower had previous mortgages, the lender does not have to independently verify the mortgage's payment history provided the credit report includes a reference to the mortgage (or mortgages) and reflects 12 months of the most recent payment activity.

If adequate mortgage payment history is not included in the borrower's credit report, the lender must use the following to verify the borrower's payment history on a previous mortgage(s):

- a standard mortgage verification;
- loan payment history from the servicer;
- the borrower's canceled checks for the last 12 months; or
- the borrower's year-end mortgage account statement, provided the statement includes a payment receipt history, and, if applicable, canceled checks for the months elapsed since the year-end mortgage account statement was issued.

Standard Mortgage Verifications from Servicers

When a lender relies on standard mortgage verifications from servicers or holders, it must ensure that the verifications include:

- the unpaid principal balance of the mortgage and monthly payment amount;
- the present status of the mortgage, such as current, 30 days' delinquent, etc.; and
- the borrower's payment history.

When a servicer fails to provide all of the requested information, the lender must rely on information provided through the borrower's canceled checks. The checks must:

- be legible,
- identify the mortgage servicer or mortgage holder as the payee,
- indicate that the servicer or holder endorsed the check for deposit, and
- indicate the date the servicer or holder deposited the check.

Existing Mortgage Payment Requirements

On the date of the loan application, the borrower's existing mortgage must be current, which means that no more than 45 days may have elapsed since the last paid installment date.

Excessive Mortgage Delinquency

The lender must review the borrower's credit history to determine previous mortgage delinquency, severity (e.g., 30, 60, or 90 days), and recency of the delinquency. Loans with excessive prior mortgage delinquencies are not eligible for delivery to Fannie Mae. Excessive prior mortgage delinquency is defined as any mortgage tradeline that has one or more 60-, 90-, 120-, or 150-day delinquency reported within the 12 months prior to the credit report date. See B3-5.3-02, Payment History, and B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit for additional information.

> **Note**: For purposes of complying with the guidelines in this topic, timeshare accounts identified as mortgage tradelines are not required to meet the requirements described above, and are considered to be installment accounts.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-5.3-04, Inquiries: Recent Attempts to Obtain New Credit (04/01/2009)

Introduction

This topic contains information on inquiries: recent attempts to obtain new credit.

- Inquiries: Recent Attempts to Obtain New Credit

Inquiries: Recent Attempts to Obtain New Credit

The lender must review the section of the borrower's credit report that indicates the presence of creditor inquiries to determine the number and recency of the inquiries.

Recent inquiries may indicate that the borrower has been actively seeking new credit accounts. The presence of a large number of unrelated inquiries represents higher credit risk (whether or not the borrower actually obtained credit as a result of the inquiry). The presence of many recent inquiries in combination with a significant number of recently opened accounts or delinquent accounts represents a high credit risk.

When the credit report indicates that recent inquiries took place, the lender must confirm that the borrower has not obtained any additional credit that is not reflected in the credit report or the mortgage application. If additional credit was obtained, a verification of that debt must be provided and the borrower must be qualified with the monthly payment.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-5.3-05, Credit Utilization (05/31/2016)

Introduction

This topic contains information on credit utilization.

- Credit Utilization

Credit Utilization

When manually underwriting a loan, the lender must review the borrower's credit report to evaluate their use of revolving credit by comparing the current balance on each open account to the amount of credit that is available to determine whether the borrower has a pattern of using revolving accounts up to (or approaching) the credit limit. Patterns of revolving credit spending are credit risk indicative.

Credit histories that include revolving accounts with a low balances-to-limits ratio generally represent a lower credit risk, while those that include accounts with a high balances-to-limits ratio represent a higher credit risk.

A credit history that includes recently opened accounts that are at or near their limits may indicate that the borrower is overextended or overly reliant on the use of revolving credit—and, when this is combined with a delinquent payment history, it is generally an indication that the borrower has not managed their credit successfully.

> **Note**: Lenders are not required to analyze trended credit data in the credit report. See B3-5.2-01, Requirements for Credit Reports, for additional information.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-5.3-06, Authorized Users of Credit (10/30/2009)

Introduction

This topic contains information on authorized users of credit

- Authorized Users of Credit
- Consideration of Authorized User Accounts

Authorized Users of Credit

When a credit account owner permits another person, typically a family member who is managing credit for the first time, to have access to and use an account, the user is referred to as an authorized user of the account. This practice is intended to assist related individuals in legitimately establishing a credit history and credit score based on the account and payment history of the account owner, even though the authorized user is not the account owner.

Consideration of Authorized User Accounts

For manually underwritten loans, credit report tradelines that list a borrower as an authorized user cannot be considered in the underwriting decision, except as outlined below.

An authorized user tradeline may be considered if:

- another borrower in the mortgage transaction is the owner of the tradeline; or
- the borrower can provide written documentation (e.g., canceled checks, payment receipts, etc.) that they have been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application.

If written documentation of the borrower’s monthly payments on the authorized user tradeline is provided, then the payment history — particularly any late payments that are indicated — must be considered in the credit analysis and the monthly payment obligation must be included in the debt-to-income ratio.

An authorized user tradeline must be considered if the owner of the tradeline is the borrower's spouse and the spouse is not a borrower in the mortgage transaction.

These requirements do not apply to loan casefiles underwritten through DU. For DU requirements, see B3-5.3-09, DU Credit Report Analysis.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit (08/07/2019)

Introduction

This topic contains information on the waiting periods for significant derogatory credit events, including:

General Information

The presence of significant derogatory credit events dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit events include bankruptcies, foreclosures, deeds-in-lieu of foreclosure, preforeclosure sales, short sales, and charge-offs of mortgage accounts.

> **Note:** The terms "preforeclosure sale" and "short sale" are used interchangeably in this Guide and have the same meaning (see Deed-in-Lieu of Foreclosure, Preforeclosure Sale, and Charge-Off of a Mortgage Account below).

The lender must determine the cause and significance of the derogatory information, verify that sufficient time has elapsed since the date of the last derogatory information, and confirm that the borrower has re-established an acceptable credit history. The lender must make the final decision about the acceptability of a borrower's credit history when significant derogatory credit information exists.

This topic describes the amount of time that must elapse (the "waiting period") after a significant derogatory credit event before the borrower is eligible for a new loan salable to Fannie Mae. The waiting period commences on the completion, discharge, or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date of the new loan for manually underwritten loans. See B3-5.3-09, DU Credit Report Analysis, for additional information pertaining to DU loan casefiles, including how the waiting period is determined. Also see B3-5.3-08, Extenuating Circumstances for Derogatory Credit, for additional information.

> **Note:** The requirements pertaining to significant derogatory credit are not applicable to high LTV refinance loans. (See B5-7-02, High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan.)

Identification of Significant Derogatory Credit Events in the Credit Report

Lenders must review the credit report and the Declarations in the loan application to identify instances of significant derogatory credit events. Lenders must review the public records section of the credit report and all tradelines, including mortgage accounts (first liens, second liens, home improvement loans, HELOCs, and manufactured home loans), to identify previous foreclosures, deeds-in-lieu, preforeclosure sales, charge-offs of mortgage accounts, and bankruptcies. Lenders must carefully review the current status of each tradeline, manner of payment codes, and remarks to identify these types of significant derogatory credit events. Remarks Codes are descriptive text or codes that appear on a tradeline, such as "Foreclosure," "Forfeit deed-in-lieu of foreclosure," and "Settled for less than full balance."

Significant derogatory credit events may not be accurately reported or consistently reported in the same manner by all creditors or credit reporting agencies. If not clearly identified in the credit report, the lender must obtain copies of appropriate documentation. The documentation must establish the completion date of a previous foreclosure, deed-in-lieu or preforeclosure sale, or date of the charge-off of a mortgage account; confirm the bankruptcy discharge or dismissal date; and identify debts that were not satisfied by the bankruptcy. Debts that were not satisfied by a bankruptcy must be paid off or have an acceptable, established repayment schedule.

> **Note:** Timeshare accounts are considered installment loans and are not subject to the waiting periods described below.

Bankruptcy (Chapter 7 or Chapter 11)

A four-year waiting period is required, measured from the discharge or dismissal date of the bankruptcy action.

Exceptions for Extenuating Circumstances

A two-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the discharge or dismissal date of the bankruptcy action.

Bankruptcy (Chapter 13)

A distinction is made between Chapter 13 bankruptcies that were discharged and those that were dismissed. The waiting period required for Chapter 13 bankruptcy actions is measured as follows:

- two years from the discharge date, or
- four years from the dismissal date.

The shorter waiting period based on the discharge date recognizes that borrowers have already met a portion of the waiting period within the time needed for the successful completion of a Chapter 13 plan and subsequent discharge. A borrower who was unable to complete the Chapter 13 plan and received a dismissal will be held to a four-year waiting period.

Exceptions for Extenuating Circumstances

A two-year waiting period is permitted after a Chapter 13 dismissal, if extenuating circumstances can be documented. There are no exceptions permitted to the two-year waiting period after a Chapter 13 discharge.

Multiple Bankruptcy Filings

For a borrower with more than one bankruptcy filing within the past seven years, a five-year waiting period is required, measured from the most recent dismissal or discharge date.

> **Note**: The presence of multiple bankruptcies in the borrower's credit history is evidence of significant derogatory credit and increases the likelihood of future default. Two or more borrowers with individual

> bankruptcies are not cumulative, and do not constitute multiple bankruptcies. For example, if the borrower has one bankruptcy and the co-borrower has one bankruptcy this is not considered a multiple bankruptcy.

Exceptions for Extenuating Circumstances

A three-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the most recent bankruptcy discharge or dismissal date. The most recent bankruptcy filing must have been the result of extenuating circumstances.

Foreclosure

A seven-year waiting period is required, and is measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower.

Exceptions for Extenuating Circumstances

A three-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the completion date of the foreclosure action. Additional requirements apply between three and seven years, which include:

- Maximum LTV, CLTV, or HCLTV ratios of the lesser of 90% or the maximum LTV, CLTV, or HCLTV ratios for the transaction per the *Eligibility Matrix.*
- The purchase of a principal residence is permitted.
- Limited cash-out refinances are permitted for all occupancy types pursuant to the eligibility requirements in effect at that time.

> **Note**: The purchase of second homes or investment properties and cash-out refinances (any occupancy type) are not permitted until a seven-year waiting period has elapsed.

Foreclosure and Bankruptcy on the Same Mortgage

If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if the lender obtains the appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.

Deed-in-Lieu of Foreclosure, Preforeclosure Sale, and Charge-Off of a Mortgage Account

These transaction types are completed as alternatives to foreclosure.

- A deed-in-lieu of foreclosure is a transaction in which the deed to the real property is transferred back to the servicer. These are typically identified on the credit report through Remarks Codes such as “Forfeit deed-in-lieu of foreclosure.”
- A preforeclosure sale or short sale is the sale of a property in lieu of a foreclosure resulting in a payoff of

less than the total amount owed, which was pre-approved by the servicer. These are typically identified on the credit report through Remarks Codes such as "Settled for less than full balance."

- A charge-off of a mortgage account occurs when a creditor has determined that there is little (or no) likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status, and is identified on the credit report with a manner of payment (MOP) code of "9."

A four-year waiting period is required from the completion date of the deed-in-lieu of foreclosure, preforeclosure sale, or charge-off as reported on the credit report or other documents provided by the borrower.

Exceptions for Extenuating Circumstances

A two-year waiting period is permitted if extenuating circumstances can be documented.

> **Note**: Deeds-in-lieu and preforeclosure sales may not be accurately or consistently reported in the same manner by all creditors or credit reporting agencies. See Identification of Significant Derogatory Credit Events in the Credit Report above for additional information.

Summary — All Waiting Period Requirements

The following table summarizes the waiting period requirements for all significant derogatory credit events.

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Bankruptcy — Chapter 7 or 11	4 years	2 years
Bankruptcy — Chapter 13	• 2 years from discharge date • 4 years from dismissal date	• 2 years from discharge date • 2 years from dismissal date
Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years	3 years from the most recent discharge or dismissal date
Foreclosure[1]	7 years	3 years Additional requirements after 3 years up to 7 years: • 90% maximum LTV ratios[2] • Purchase, principal residence • Limited cash-out refinance, all occupancy types

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Deed-in-Lieu of Foreclosure, Preforeclosure Sale, or Charge-Off of Mortgage Account	4 years	2 years

Requirements for Re-establishing Credit

After a bankruptcy, foreclosure, deed-in-lieu of foreclosure, preforeclosure sale, or charge-off of a mortgage account, the borrower's credit will be considered re-established if all of the following are met:

- The waiting period and the related additional requirements are met.
- The loan receives a recommendation from DU that is acceptable for delivery to Fannie Mae or, if manually underwritten, meets the minimum credit score requirements based on the parameters of the loan and the established eligibility requirements.
- The borrower has traditional credit as outlined in Section B3–5.3, Traditional Credit History. Nontraditional credit or "thin files" are not acceptable.

1 When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the lender may apply the bankruptcy waiting period if the lender obtains the appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.

2 References to LTV ratios include LTV, CLTV, and HCLTV ratios. The maximum LTV ratios permitted are the lesser of the LTV ratios in this table or the maximum LTV ratios for the transaction per the *Eligibility Matrix*.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-07	August 07, 2019

B3-5.3-08, Extenuating Circumstances for Derogatory Credit (12/16/2014)

Introduction

This topic provides information on extenuating circumstances for derogatory credit information.

- Extenuating Circumstances

Extenuating Circumstances

Extenuating circumstances are nonrecurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations.

If a borrower claims that derogatory information is the result of extenuating circumstances, the lender must substantiate the borrower's claim. Examples of documentation that can be used to support extenuating circumstances include

- documents that confirm the event
  - such as a copy of a divorce decree, medical reports or bills, notice of job layoff, job severance papers, etc.; and
- documents that illustrate factors that contributed to the borrower's inability to resolve the problems that resulted from the event
  - such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc.

The lender must obtain a written explanation from the borrower explaining the relevance of the documentation. The written explanation must support the claims of extenuating circumstances, confirm the nature of the event that led to the bankruptcy or foreclosure-related action, and illustrate that the borrower had no reasonable options other than to default on his or her financial obligations. The written explanation may be in the form of a letter from the borrower, an email from the borrower, or some other form of written documentation provided by the borrower.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-5.3-09, DU Credit Report Analysis (04/05/2023)

Introduction

This topic describes how DU analyzes credit report data and requirements lenders must follow in response to the credit-related Findings messages. This topic includes:

Inquiries

The lender should examine inquiries to determine whether they represent potential sources of undisclosed credit. If new debt was obtained, the lender may need to correct the loan application and resubmit it.

Trended Credit Data

Lenders are not required to analyze trended credit data in the credit report. For more information, see B3-2-03, Risk Factors Evaluated by DU.

Omitted Accounts

Supporting documentation is required when a credit report liability with a balance greater than zero is omitted from the loan application.

Authorized User Tradelines

DU takes credit report tradelines designated as authorized user tradelines into consideration as part of the DU credit risk assessment. However the lender must review credit report tradelines in which the applicant has been designated as an authorized user in order to ensure the tradelines are an accurate reflection of the borrower's credit history. If the lender believes the authorized user tradelines are not an accurate reflection of the borrower's credit history, the lender should evaluate the borrower's credit history without the benefit of these tradelines and use prudent underwriting judgment when making its final underwriting decision. In order to assist the lender in its review of authorized user tradelines, DU issues a message providing the name of the creditor and account number for each authorized user tradeline identified.

When ensuring tradelines are an accurate reflection of the borrower's credit history, as a general guide, if the borrower has several authorized user accounts but only has a few accounts of their own, the lender should establish:

- the relationship of the borrower to the owner of the account,
- if the borrower uses the account, and
- if the borrower makes the payments on the account.

If the authorized user tradeline belongs to another borrower on the mortgage loan, no additional investigation is needed. On the other hand, if the borrower has several tradelines in good standing and only a minor number of authorized user accounts, the lender could make the determination that:

- the authorized user accounts had minimal, if any, impact on the borrower's overall credit profile; and
- the information reported on the credit report is an accurate reflection of the borrower's credit history.

The lender is not required to review an authorized user tradelines that belongs to the borrower's spouse when the spouse is not on the mortgage transaction.

For manual underwriting consideration of authorized users of credit, see B3-5.3-06, Authorized Users of Credit.

Disputed Credit Report Tradelines

When the credit report contains tradelines disputed by the borrower, DU will first assess the risk of the loan casefile using all tradelines, including those disputed. If DU issues an Approve recommendation using the disputed tradelines, no further documentation or action is necessary. DU will issue a message specific to this scenario.

If DU does not issue an Approve recommendation when including the disputed tradelines, DU will re-assess the risk without using the disputed tradelines. If DU is then able to issue an Approve recommendation, the lender must investigate the tradelines to determine whether the borrower is responsible for the accounts or if the account information is accurate or complete.

- If the borrower is not responsible for the disputed accounts, the lender must obtain supporting documentation and may deliver the loan as a DU loan. No further action is necessary regarding the disputed tradelines.

- If the borrower is responsible for the disputed account, the lender must investigate the information, including determining the aspect of the tradeline that is being disputed. If the borrower is able to provide documentation to disprove any adverse information (such as canceled checks), the lender may deliver the loan as a DU loan.
- If the borrower is responsible for the disputed account and the account and tradeline information is accurate and complete, the loan is not eligible for delivery as a DU loan. The lender may manually underwrite the loan if the transaction is eligible for manual underwriting.

The monthly payments for the disputed tradelines must be included in the debt-to-income ratio if the accounts belong to the borrower.

> **Note**: Tradelines reported as medical debt are not shown in the disputed tradeline message. Therefore, lenders are not required to investigate disputed medical tradelines.

Examples

The following scenarios are examples of when a loan receiving an Approve/Eligible recommendation with the disputed tradeline(s) excluded from DU's risk assessment would be eligible for delivery as a DU loan:

- A borrower's account was referred for collection by the creditor. Subsequently, the borrower paid off the account, but the pay-off was not reported on the tradeline. The borrower requested that a dispute be placed on the tradeline. The tradeline information was accurate, but because it did not reflect that the borrower paid off the account, it may be considered incomplete. The borrower must provide documentation that the account was paid in full.
- A borrower and his son have the same name (Sr. and Jr.). The borrower's credit report contains a tradeline that actually belongs to the son. The tradeline is reported as disputed. The borrower can provide confirmation that they are not obligated on the account.
- The servicer of a disputed loan indicates a late payment in January of the previous year. The borrower can provide documentation (such as canceled checks or bank statements) that indicate that the payment was made on time.

The following scenario is an example of when a loan receiving an Approve/Eligible recommendation with the disputed tradeline(s) excluded from DU's risk assessment would not be eligible for delivery as a DU loan:

- The credit report indicates a disputed tradeline on the borrower's mortgage being refinanced. The tradeline indicates a 60–day late payment in January of the previous year. The borrower cannot provide any documentation to support that the payment was made on time.

DU Debt Comparison

DU compares the balances and payments of the debts on the credit report with the debts on the loan application. If material differences are found, the lender must confirm that all debts from the credit report are included on the loan application and provide documentation to support the use of payments and balances lower than those on the credit report. If the debt affects the debt-to-income ratio by more than the allowable tolerances, the lender must add the debt to the loan application and resubmit the loan. Otherwise, the lender is expected to provide documentation that supports the omission from the loan application. See B3-6-02, Debt-to-Income Ratios, and B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report, for additional information.)

Contradictory, Derogatory, or Erroneous Information

Lenders are obligated to take action when contradictory, derogatory, or erroneous information would justify additional investigation or would provide grounds for a decision that is different from the recommendation DU delivers. For example, if the credit report reflects a previous foreclosure but the information was not accurately mapped to DU, the lender must consider this when making its final underwriting decision.

Duplicate Public Records

Items that typically appear in the Public Records section of the credit report (judgments, bankruptcies, foreclosures, and tax liens) are often duplicated because the credit agencies may not attempt to merge items of this severe nature. As a result, these items may also appear in more than one verification message in the Underwriting Findings report. If it is clear from the credit report data that the items are duplicates (identical account numbers, date filed, and dollar amounts), the lender can disregard the duplicates and document the item once. However, if it is unclear from the credit report whether any of the items are duplicated, the lender should treat each item individually and obtain the required documentation for each item, as indicated in the verification messages.

Judgments and Liens

Open judgments and all outstanding liens that are in the Public Records section of the credit report will be identified in the Underwriting Findings report, and must be paid off at or prior to closing. Documentation of the satisfaction of these liabilities, along with verification of funds sufficient to satisfy these obligations, must also be maintained in the permanent loan file.

Mortgage Delinquencies

DU applies the following guidelines to the processing of loans with mortgage delinquencies:

- If any borrower’s credit report contains a mortgage tradeline that is 60 or more days past due when the account was last reported by the creditor and the account was reported within the 12 months prior to the credit report date, the loan casefile will receive a Refer with Caution recommendation and will be ineligible for delivery to Fannie Mae.
- If there is a mortgage that is disclosed on the loan application but not reported on the credit report, or the mortgage is on the credit report with an outstanding balance but the payment history has not been reported in the last six months, DU will issue a message requiring the lender to confirm that the account is not two or more payments past due as of the date of the application and that it has not been past due by two or more payments in the last 12 months. If the lender determines that the borrower does have a mortgage that is past due by two or more payments or has been past due by two or more payments in the last 12 months, then the loan casefile is not eligible for delivery to Fannie Mae.
- Borrowers may not bring past-due mortgage accounts current prior to closing in order to circumvent Fannie Mae’s policy regarding past-due mortgages. However, the lender may apply some discretion with

regard to the application of this policy if it determines and documents that the past-due account status was not the fault of the borrower—for example, if the servicer misapplied or lost the borrower's payment.

- Loan casefiles will receive an Ineligible recommendation due to excessive prior mortgage delinquency if the borrower has a mortgage tradeline on their credit report that has one or more 60-, 90-, 120-, or 150-day delinquency reported within the 12 months prior to the credit report date.

The above policies will apply to all mortgage tradelines, including first liens, second liens, home improvement loans, HELOCs, and manufactured home loans.

Underwriting when the Credit Report Contains Inaccurate Mortgage Delinquency Information

- When DU identifies a mortgage delinquency on the credit report and the information is inaccurate, the lender may instruct DU to disregard the mortgage delinquency information on the credit report. This is done by entering "Confirmed Mtg Del Incorrect" in the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the mortgage delinquency information on the credit report will not be used.
- If the lender enters "Confirmed Mtg Del Incorrect", the lender must document that the mortgage is not currently 60 days or more past due, and has not been 60 days or more past due in the last 12 months.

Past-Due, Collection, and Charge-Off of Non-Mortgage Accounts

Accounts that are reported as past due (not reported as collection accounts) must be brought current. Medical collection accounts are excluded from the limits below and are not required to be paid in full at or prior to closing.

- For one-unit, principal residence properties, borrowers are not required to pay off outstanding collections or non-mortgage charge-offs—regardless of the amount.

  > **Note**: If the lender marks the collection account Paid By Close in the online loan application, DU will issue a message in the DU Underwriting Findings report stating that the collection must be paid.

- For two- to four-unit owner-occupied and second home properties, collections and non-mortgage charge-offs totaling more than $5,000 must be paid in full prior to or at closing.
- For investment properties, individual collection and non-mortgage charge-off accounts equal to or greater than $250 and accounts that total more than $1,000 must be paid in full prior to or at closing.

Prior Bankruptcy, Foreclosure, Deed-in-Lieu of Foreclosure, Preforeclosure Sales, and Charge-Off of Mortgage Accounts

Per the requirements of B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit, an amount of time must elapse (the "waiting period") after a significant derogatory credit event before the borrower is eligible for a new loan salable to Fannie Mae. The waiting period commences on the completion, discharge, or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date of the new loan. Because DU does not have the disbursement date of the subject loan, DU uses the date of the credit report to measure whether or not the applicable waiting period has been met. However, because the credit report date may not result in an accurate calculation of the waiting period (it is earlier than the disbursement date), the lender may use the disbursement date to confirm that the waiting period has been met. See the table below for additional information.

Event	Measurement of Waiting Period
Bankruptcy Foreclosure	• If the completion, discharge, or dismissal dates (as applicable) reflected in the credit report are complete and appear to comply with the applicable waiting period requirements, DU will issue a recommendation, but the lender must still confirm that the waiting period has been met and may base its determination on the disbursement date of the new loan. • If the completion, discharge, or dismissal dates (as applicable) reflected in the credit report are complete, but do not appear to comply with the applicable waiting period requirements, a Refer with Caution recommendation will be issued. DU uses the date of the credit report to determine whether or not the applicable waiting period has been met. The lender may obtain an updated credit report and resubmit the loan casefile to DU after the required time has elapsed or manually underwrite the loan using the disbursement date to confirm that the waiting period has been met. • If the completion, discharge, or dismissal dates (as applicable) reflected in the credit report are incomplete, the lender must confirm that the waiting period has been met and may base its determination on the disbursement date of the new loan.
Deed-in-Lieu of Foreclosure Preforeclosure Sale Mortgage Charge-Off	• DU will determine if the date of the event was within the applicable waiting period. However, the recommendation will not be changed and the lender must confirm the waiting period requirement has been met, and may base its determination on the disbursement date of the new loan.

Note: See B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit, for additional information regarding significant derogatory events. DU is not able to identify whether the borrower’s derogatory credit event(s) was the result of extenuating circumstances. See below for information on how to treat extenuating circumstances and B3-5.3-08, Extenuating Circumstances for Derogatory Credit, for additional information.

Bankruptcy

DU applies the following guidelines to prior bankruptcies:

- If a Chapter 13 bankruptcy was discharged within the last two years, dismissed within the last four years, or filed but neither discharged nor dismissed within the last four years, the loan casefile will receive a Refer with Caution recommendation and will be ineligible for delivery to Fannie Mae.
- If a non-Chapter 13 bankruptcy was filed, discharged, or dismissed within the last four years, the loan casefile will receive a Refer with Caution recommendation and will be ineligible for delivery to Fannie Mae.
- DU will not take bankruptcy information in the public record section of the credit report into account if the bankruptcy is dated more than seven years prior to the credit report date.
- DU will not take tradeline accounts that are reported with a bankruptcy status code or manner of payment (MOP) code of “7” into account if there is at least one bankruptcy reported in a public record within seven years of the credit report date. In this scenario, DU assumes the date filed and the date discharged in the public record are more accurate than the dates in the tradeline; i.e., specific filed and discharged dates do not exist in the tradeline.
- DU will use tradeline accounts that are reported with a bankruptcy status code or MOP code of “7” if there is not a bankruptcy reported in a public record within seven years of the credit report date. In this scenario, the lender will need to verify the actual filed and discharged dates to determine that the bankruptcy meets the DU bankruptcy policy.
- DU is not able to determine if multiple filings have occurred due to the manner in which bankruptcies are reported to the credit report. DU will issue a message when it appears that there may have been multiple bankruptcy filings. This message will list each of the bankruptcies seen on the credit report, and will instruct lenders to ensure the loan casefile meets the criteria for underwriting loan casefiles with multiple bankruptcies.

Underwriting when the Credit Report Contains Inaccurate Bankruptcy Information

- When DU identifies a bankruptcy on the credit report and the information is inaccurate, the lender may instruct DU to disregard the bankruptcy information on the credit report in the eligibility assessment. This is done by entering “Confirmed CR BK Incorrect” in the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the bankruptcy information on the credit report will not be used.
- If the lender enters “Confirmed CR BK Incorrect”, the lender must document that the Chapter 13 bankruptcy was discharged two or more years or dismissed four or more years from the disbursement date of the new loan, or that the non-Chapter 13 bankruptcy was discharged or dismissed four years or more years from the disbursement date of the new loan

Underwriting when a Bankruptcy Was Due to Extenuating Circumstances

- When DU identifies a bankruptcy on the credit report and that bankruptcy was due to extenuating circumstances, the lender may instruct DU to disregard the bankruptcy information on the credit report in the eligibility assessment. This is done by entering “Confirmed CR BK EC” in the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the bankruptcy information on the credit report will not be used.

- If the lender enters “Confirmed CR BK EC”, the lender must document that the bankruptcy was due to extenuating circumstances, and that the Chapter 13 bankruptcy was dismissed two or more years from the disbursement date of the new loan, or that the non-Chapter 13 bankruptcy was discharged or dismissed two or more years from the disbursement date of the new loan.

Foreclosure

DU applies the following guidelines to prior foreclosures:

- Mortgage accounts, including first liens, second liens, home improvement loans, HELOCs, and manufactured home loans, will be identified as a foreclosure if there is an MOP code of “8,” or a Remarks Code that indicates a foreclosure is present in the credit report data and associated to the tradeline.
- If a foreclosure was reported within the seven-year period prior to the credit report date, the loan casefile will receive a Refer with Caution recommendation and will be ineligible for delivery to Fannie Mae.
- If the filed date and the satisfied date of the foreclosure are both unknown, but it appears that the foreclosure occurred within the seven-year period prior to the credit report date, the lender must confirm that the foreclosure did not occur within the most recent seven-year period.
- Foreclosure laws vary by state and the time it takes to complete the process may vary by state. DU assumes that the date the foreclosure was reported in the tradeline is the date of the foreclosure sale or liquidation. The lender must confirm that all foreclosures are satisfied.
- Mortgage accounts that are identified as a deed-in-lieu of foreclosure or preforeclosure sale will not be identified as a foreclosure.

Underwriting when Inaccurate Foreclosure Information Exists

- When DU identifies a foreclosure on a credit report tradeline and the foreclosure information on that tradeline is inaccurate, the lender may instruct DU to disregard the foreclosure information on the credit report in the eligibility assessment. This is done by entering “Confirmed CR FC Incorrect” in the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the foreclosure information on the credit report tradeline will not be used in the eligibility assessment.
- If the lender enters “Confirmed CR FC Incorrect,” the lender must then document the foreclosure was completed seven or more years from the disbursement date of the new loan, or that the account was not subject to foreclosure and the loan complies with all other applicable requirements.

Underwriting when Extenuating Circumstances Exist

- When DU identifies a foreclosure on a credit report tradeline and that foreclosure was due to extenuating circumstances, the lender may instruct DU to disregard the foreclosure information on the credit report in the eligibility assessment. This is done by entering “Confirmed CR FC EC” in the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the foreclosure information on the credit report tradeline will not be used in the eligibility assessment.
- If the lender enters “Confirmed CR FC EC,” the lender must then document that the foreclosure was due to extenuating circumstances, the foreclosure was completed three or more years from the disbursement date of the new loan, and the loan complies with all other requirements specific to a foreclosure due to

extenuating circumstances.

Deed-in-Lieu of Foreclosure

DU applies the following guidelines to prior DILs:

- DU will determine if a mortgage tradeline is a DIL by using specific Remarks Codes that are present in the credit report data and associated to the tradeline.
- When DU identifies a DIL, the lender must document that the event was completed four or more years from the disbursement date of the new loan, or two or more years from the disbursement date of the new loan when the lender confirms that the mortgage loan meets the applicable time frames and eligibility requirements for a deed-in-lieu of foreclosure due to extenuating circumstances.

Preforeclosure Sales or Short Sales

- DU will determine if a mortgage tradeline is a PFS by using specific Remarks Codes that are present in the credit report data and associated to the tradeline.
- When DU identifies a PFS, the lender must document that the event was completed four or more years from the disbursement date of the new loan, or two or more years from the disbursement date of the new loan when the lender confirms that the mortgage loan meets the applicable time frames and eligibility requirements for a preforeclosure sale due to extenuating circumstances.

Charge-Off of Mortgage Accounts

- Mortgage accounts, including first liens, second liens, home improvements loans, HELOCs, and manufactured home loans, will be identified as a charge-off if there is an MOP code of “9” (collection or charge-off) and there is no information indicating the account may also be subject to a foreclosure (MOP code “8” or foreclosure Remarks Code), a deed-in-lieu of foreclosure (DIL Remarks Code), or a preforeclosure sale (PFS Remarks Code).
- When DU identifies a charge-off on a mortgage tradeline, the lender must document that the event was completed four or more years from the disbursement date of the new loan, or two or more years from the disbursement date of the new loan when the lender confirms that the mortgage loan meets the applicable time frames and eligibility requirements for a charge-off due to extenuating circumstances.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-03	April 05, 2023

Announcements	Issue Date
Announcement SEL-2019-09	December 04, 2019
Announcement-SEL-2018-05	June 05, 2018

Section B3-5.4, Nontraditional Credit History

B3-5.4-01, Eligibility Requirements for Loans with Nontraditional Credit (02/01/2023)

Introduction

This topic contains information on nontraditional credit eligibility requirements, including:

- Overview
- Unacceptable Uses
- Manual Underwriting: At Least One Borrower Has No Credit Score
- DU Loan Casefiles: No Borrower Has a Credit Score
- DU Loan Casefiles: At Least One Borrower Has No Credit Score and Another Borrower Has a Credit Score
- Homeownership Education

Overview

If one or more borrowers do not have a credit score due to insufficient credit, the lender must establish an acceptable nontraditional credit history. The lender must first check all three major credit repositories to verify the borrower's credit history and confirm that the borrower does not have a credit score.

If the borrower's credit information is frozen at one of the credit repositories, and no credit score is available from any other repository, the lender may underwrite the borrower following the requirements for nontraditional credit. If the borrower's credit information is frozen at two or more of the credit repositories, the loan is not eligible as nontraditional credit even though no credit score is available.

The credit report will indicate if a credit score could not be produced due to insufficient credit. Lenders must ensure that the credit report accurately reflects the borrower's information, such as the name, Social Security number, and current residence of the borrower to confirm that the lack of traditional credit was not erroneously reported because incorrect information was used to order the credit report.

> **Note**: For certain loan transactions, one or more borrower(s) are required to have traditional credit as evidenced by a credit score. See below for additional information.

Unacceptable Uses

The establishment of a nontraditional credit history is not acceptable for the following scenarios:

- The lender is able to obtain a credit score for the borrower despite the borrower's limited use of credit.
- The borrower has a sufficient amount of credit to obtain a credit score and the representative credit score is less than the minimum required.

  > **Note**: An exception is permitted for certain HomeReady loans for borrowers with low credit scores. See B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements, for additional information.

- The borrower's traditional credit history indicates significant derogatory references, such as a prior bankruptcy or foreclosure. In these cases, the borrower must have re-established credit in accordance with B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit, including the establishment of traditional credit and a credit score.

Manual Underwriting: At Least One Borrower Has No Credit Score

If one or more borrowers on the loan does not have a credit score and is relying on nontraditional credit to qualify, the following requirements apply:

- The property must be a one-unit, principal residence.
- Non-occupant co-borrowers are permitted, provided the requirements described in B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers on the Subject Transaction, are met in addition to the eligibility requirements described herein.
- The transaction must be a purchase or limited cash-out refinance.
- The loan amount must meet the baseline loan limits—high-balance mortgage loans are not eligible.
- The maximum debt-to-income ratio is 36%.
- There is no minimum reserve requirement if at least one borrower can document a rental payment history as one nontraditional credit reference. Otherwise, a minimum of 12 months reserves is required. See B3-5.4-02, Number and Types of Nontraditional Credit References, for additional information.
- A nontraditional credit history must be documented for each borrower without a credit score. See B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History, for additional information.

DU Loan Casefiles: No Borrower Has a Credit Score

Lenders may submit loan casefiles to DU when no borrower has a credit score. DU will apply the following requirements:

- The property must be a one- to four-unit, principal residence, and all borrowers must occupy the property.
- The transaction must be a purchase or limited cash-out refinance.
- The loan amount must meet the baseline loan limits—high-balance mortgage loans are not eligible.
- The loan must be a fixed-rate mortgage.
- Reserves may be required as determined by DU.
- Nontraditional credit references may be required as follows:
    - No verification of nontraditional credit references is required for any borrower when DU conducts a cash flow assessment and issues a message that the third-party asset verification report may be used to satisfy the requirements.
    - Otherwise, a nontraditional credit history must be documented for each borrower without a credit score. See B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History, for additional information.

If a loan casefile does not receive an Approve/Eligible recommendation, it may receive a more favorable recommendation if a 12-month asset verification report is obtained (see B3-2-03, Risk Factors Evaluated by DU). In all cases the loan may still be eligible for manual underwriting. The lender must determine whether the loan meets the requirements for a manually underwritten loan that includes a borrower without a credit score.

DU Loan Casefiles: At Least One Borrower Has No Credit Score and Another Borrower Has a Credit Score

If one (or more) borrower(s) has a credit score and at least one borrower does not have a credit score, then DU will apply the following requirements:

- The property must be a one-unit, principal residence, and all borrowers must occupy the property.
- The transaction must be a purchase or limited cash-out refinance.
- The loan amount must meet the baseline loan limits—high-balance mortgage loans are not eligible.
- Reserves may be required as determined by DU.
- If the borrower(s) with a credit score is contributing more than 50% of the qualifying income, the lender is not required to document a nontraditional credit history for the borrower(s) without a credit score.
- If the borrower(s) with a credit score is contributing 50% or less of the qualifying income, the lender must document a nontraditional credit history for each borrower without a credit score. See B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History, for additional information.

Homeownership Education

If all borrowers on the loan are relying solely on nontraditional credit to qualify, at least one borrower must complete homeownership education prior to loan closing. See B2-2-06, Homeownership Education and Housing Counseling, for the requirements.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-01	February 01, 2023

B3-5.4-02, Number and Types of Nontraditional Credit References (02/01/2023)

Introduction

This topic contains information on nontraditional credit references, including

- Number of Nontraditional Credit References Required
- Eligible Types of Nontraditional Credit References

Number of Nontraditional Credit References Required

The number of nontraditional credit references that must be documented for a borrower without a credit score differs depending on the underwriting method and loan product, as described in the table below.

	Number of Nontraditional Credit References Required	
Underwriting Method	**Loans other than HomeReady Loans**	**HomeReady Loans**

	Number of Nontraditional Credit References Required	
Manually underwritten loans	• Four credit references for each borrower without a credit score	• Three credit references for each borrower without a credit score • If there is a borrower on the loan without a credit score who cannot document any nontraditional credit references (because the borrower has none), the transaction is still eligible, provided no more than 30% of the qualifying income for the loan comes from that borrower.
Loans underwritten through DU	• If no borrower has a credit score ∘ at least two credit references for each borrower are required, unless DU conducts a cash flow assessment and issues a message that the third-party asset verification report may be used to satisfy the requirements in B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History.	
	• If the borrower(s) with a credit score contributes ∘ 50% or less of qualifying income, at least two credit references for each borrower without a credit score. ∘ more than 50% of qualifying income, then no nontraditional credit history is required for the borrower(s) without a credit score.	

Eligible Types of Nontraditional Credit References

The types of credit references that can be used to develop a nontraditional credit history are those that require the borrower to make periodic payments on a regular basis with intervals that are no longer than every three months.

The lender must conduct an informational interview with the borrower to identify all credit references over the most recent consecutive 12 months. If the lender is requesting a nontraditional mortgage credit report from a consumer reporting agency, the agency will conduct the borrower interview and obtain the list of available nontraditional credit references.

In all cases, the payment history for each credit reference must be documented for the most recent consecutive 12-month period. All credit references must be included, not just those that reflect acceptable performance.

The following nontraditional credit references may be used to develop a nontraditional credit history for the borrower:

- Rental housing payments. This includes payments made to a landlord or management company. Also included are payments made on a privately-held mortgage loan that is not reported to the credit bureaus, contract for deed payments and other similar arrangements, provided the payments are related to the borrower's housing.
    - Loans underwritten through DU where a nontraditional credit history is required must include rental housing payments as one reference of nontraditional credit.
    - Manually underwritten loans do not require that one reference of nontraditional credit be rental housing payments. However, if no borrower on the loan is able to document a rental payment history, a minimum of 12 months' reserves must be documented.
- Utilities, such as electricity, gas, water, telephone service, television, and internet service providers. If utilities are included in the rental housing payment, they cannot be considered a separate nontraditional credit reference. Utilities can be considered a credit reference only if the payment history can be separately documented.
- Medical insurance coverage (excluding payroll deductions)
- Automobile insurance payments
- Cell phone payments
- Life insurance policies (excluding payroll deductions)
- Payments for household or renter's insurance
- Payments to local stores, such as department stores, furniture stores, appliance stores
- Rental (or lease) payments for durable goods, such as automobiles
- Payment of medical bills
- Payment of school tuition
- Payments for child care
- A loan obtained from an individual, provided the repayment terms can be documented in a written agreement
- Checking account, savings account, voluntary payments made to a payroll savings plan or contributions to a stock purchase plan, provided the records reflect an increasing balance as a result of periodic deposits over at least the most recent 12 months. Contributions must have been made no less than quarterly.
- Wire remittance statements demonstrating a consistent amount of funds remitted over the most recent 12-month period.

Recent Related Announcements

The table below provides references recently issued Announcements that are related to this topic.

Announcement	Issue Date
Announcement SEL-2023-01	February 01, 2023

B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History (02/01/2023)

Introduction

This topic contains information on the documentation and assessment of a nontraditional credit history, including:

General Documentation Requirements

The lender can document the borrower's nontraditional credit history directly from the borrower or the creditor, or by obtaining a nontraditional mortgage credit report from a consumer reporting agency.

Rental Payment History

The borrower's rental payment history must be documented for the most recent consecutive 12-month period. The following documentation is acceptable:

- Canceled checks can be provided. In lieu of canceled checks, the lender may use the borrower's bank statements, copies of money orders, or other reasonable methods for documenting the timely payment of rent. The documentation must clearly indicate the payee and amount being paid, and reflect that payments were made on a consistent basis.
- Direct verification of the payment of rent from the landlord. Direct landlord verification is acceptable whether the landlord is an individual or a professional management company.

If at least one borrower on the loan can document a rental housing payment as a nontraditional credit reference, the loan has met the rental payment history requirement. The lender is not required to obtain documentation of a rental payment history for other nontraditional credit borrowers on the loan. However, the lender must still document the minimum number of nontraditional credit references required for each nontraditional credit borrower.

If two or more borrowers on a loan share the housing-related reference (for example, they are both named on the lease for the property in which they are living), that documentation counts as one nontraditional credit reference for each borrower, even if only one borrower has been making the payments.

> **Note**: If the credit report contains a rental payment reference and it includes the required information, including payment history, then the lender may use that rental payment reference as an acceptable nontraditional credit reference.

Standards for Individual Credit References Obtained Directly from a Creditor

Individual credit references (other than rental housing payments) from a creditor must include the following:

- the creditor's name,
- the name of the individual providing the reference,
- the date the account was opened,
- the amount of highest credit,
- the current status of the account,
- the required payment amount,
- the unpaid balance, and
- the payment history.

The historical status of each account must be stated in a "number of times past due" format using "0 X 30, 0 X 60, 0 X 90" days late.

> **Note**: Vague statements such as "current," "satisfactory," or "pays as agreed" are not acceptable by themselves.

Standards for Documenting a Nontraditional Payment History Obtained From the Borrower

For documentation obtained directly from the borrower, the following standards must be met:

- documentation that describes the terms of the debt repayment or contract together with canceled checks or copies of bills marked "paid" that reflect the borrower's payment history over the most recent consecutive 12 months.
- withdrawals or debits on the borrower's bank statements that show the payee information clearly listed for the creditor and that payments were made on a consistent basis over the most recent consecutive 12 months.

Verification of Bank Accounts and Wire Remittance Statements

Account statements can be used to document a nontraditional credit history, provided they are from the borrower's checking account, savings account, voluntary payments made to a payroll savings plan, or contributions to a stock purchase plan. The account statements must reflect an increasing balance as a result of periodic deposits over at least the most recent consecutive 12-month period, with contributions being made no less than quarterly. If the account statements demonstrate overdraft activity, that information suggests a weakness in the borrower's ability to meet financial obligations. The lender must assess the significance of this information relative to the borrower's overall credit risk.

> **Note:** If the loan is underwritten by DU and a cash flow assessment is conducted using a third-party asset verification report, different requirements may apply (see B3-2-03, Risk Factors Evaluated by DU).

Wire remittance statements can be used to document a nontraditional credit history, provided they demonstrate a consistent amount of funds being remitted over the most recent consecutive 12-month period.

Borrowers with Disabilities

If a borrower with disabilities does not have a credit score and a nontraditional credit history is being developed, the lender may use documentation provided by a court-appointed guardian, a Social Security Administration representative payee, or a parent, provided that this party:

- manages the borrower's financial transactions,
- maintains records on the borrower's behalf, and
- uses credit accounts held jointly in the name of the person with disabilities to pay financial obligations.

The lender can use the documentation provided either to request a nontraditional mortgage credit report from a consumer reporting agency, or to establish a nontraditional credit history for the borrower, as described in this topic.

Non-U.S. Citizen and Foreign Borrowers

If a non-U.S. citizen or foreign borrower lacks sufficient credit references in the United States to satisfy Fannie Mae requirements, the lender must use credit references from foreign countries to achieve the required number of nontraditional credit references and establish a nontraditional credit profile.

Assessment of the Payment History for Nontraditional Credit References

For each nontraditional credit reference, the following requirements must be met:

- There cannot be any delinquency on rental housing payments within the past 12 months.
- Only one account, excluding rental housing payments, can have a 30-day delinquency in the past 12 months.
- No collections (other than medical collections) or judgments have been filed in the past 24 months.
- Judgments, liens, collections, and charge-offs of non-mortgage accounts must be satisfied in accordance

with B3-6-07, Debts Paid Off At or Prior to Closing (for manually underwritten loans), or B3-5.3-09, DU Credit Report Analysis (for loans underwritten with DU).

> **Note**: A borrower may lack sufficient credit to obtain a credit score. However, the lender must still consider any derogatory credit references that appear on the credit report.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcement	Issue Date
Announcement SEL-2023-01	February 01, 2023

Chapter B3-6, Liability Assessment

Introduction

This chapter describes liability assessment for qualifying, underwriting, and documentation purposes.

B3-6-01, General Information on Liabilities (05/04/2022)

Introduction

This topic contains information on liabilities, including:

- General Information on Liabilities
- Monthly Obligations Not Included in Liabilities

General Information on Liabilities

The lender's risk analysis must include all liabilities affecting income or assets that will affect the borrower's ability to fulfill the mortgage payment obligation.

A borrower's liabilities include the following:

- housing payment (mortgage or rent) for each borrower's principal residence,
- all revolving charge accounts,
- installment loan debts with a remaining payment term greater than 10 months,
- installment debts secured by virtual currency,
- lease payments,
- real estate loans,
- HELOCs,
- alimony and child support,
- maintenance payments, and
- all other debts of a recurring nature.

For each liability, the lender must determine the unpaid balance, the terms of repayment, and the borrower's payment history, and verify any other liability that is not shown on a credit report by obtaining documentation from the borrower or creditor.

If the credit report does not contain a reference for each significant open debt shown on the loan application—including outstanding mortgage debt, bank, student, or credit union loans—the lender must provide separate credit verification.

If a current liability appears on the credit report that is not shown on the loan application, the borrower should provide a reasonable explanation for the undisclosed debt. Documentation may be required to support the borrower's explanation.

If the borrower discloses, or the lender discovers, additional liabilities after the underwriting decision has been made, up to and concurrent with closing, the lender must recalculate the borrower's debt-to-income ratio.

See B3-6-02, Debt-to-Income Ratios and B3-6-03, Monthly Housing Expense for the Subject Property for additional information.

Monthly Obligations Not Included in Liabilities

Some obligations, often identified on a borrower's paystub, are not considered a liability and will not be included as a debt or deducted from the borrower's gross income when calculating the borrower's debt-to-income ratio. These obligations include items such as

- federal, state, and local taxes;
- Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds);
- commuting costs;
- union dues; and
- voluntary deductions.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcement	Issue Date
Announcement SEL-2022-04	May 04, 2022
Announcement SEL-2020-01	February 05, 2020

B3-6-02, Debt-to-Income Ratios (05/04/2022)

Introduction

This topic contains information on the use of the debt-to-income (DTI) ratio, including:

- DTI Ratios
- Maximum DTI Ratios
- Exceptions to the Maximum DTI Ratio
- Calculating Total Monthly Obligation
- DTI Ratio Tolerance and Re-Underwriting Criteria
- Applying the Re-underwriting Criteria

DTI Ratios

The DTI ratio consists of two components:

- total monthly obligations, which includes the qualifying payment for the subject mortgage loan and other long-term and significant short-term monthly debts (see Calculating Total Monthly Obligation below); and
- total monthly income of all borrowers, to the extent the income is used to qualify for the mortgage (see Chapter B3–3, Income Assessment).

Maximum DTI Ratios

For manually underwritten loans, Fannie Mae's maximum total DTI ratio is 36% of the borrower's stable monthly income. The maximum can be exceeded up to 45% if the borrower meets the credit score and reserve requirements reflected in the Eligibility Matrix.

For loan casefiles underwritten through DU, the maximum allowable DTI ratio is 50%.

See B3-1-01, Comprehensive Risk Assessment for information about the DTI.

Exceptions to the Maximum DTI Ratio

Fannie Mae makes exceptions to the maximum allowable DTI ratios for particular mortgage transactions, including:

- cash-out refinance transactions — the maximum ratio may be lower for loan casefiles underwritten through DU (see B2-1.3-03, Cash-Out Refinance Transactions);
- high LTV refinance transactions - except for loans underwritten under the Alternative Qualification Path, there are no maximum DTI ratio requirements (see B5-7-01, High LTV Refinance Loan and Borrower Eligibility);
- borrowers who do not have a credit score — the maximum ratio may be lower for manually underwritten loans and DU loan casefiles (see B3-5.4-01, Eligibility Requirements for Loans with Nontraditional Credit);
- non-occupant borrowers — the maximum ratio is lower than 45% for the occupying borrower for manually underwritten loans (see B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers on the Subject Transaction); and
- government mortgage loans — lenders must follow the requirements for the respective government agency.

Calculating Total Monthly Obligation

The total monthly obligation is the sum of the following:

- the housing payment for each borrower's principal residence
  - if the subject loan is the borrower's principal residence, use the PITIA and qualifying payment amount (see B3-6-03, Monthly Housing Expense for the Subject Property);
  - if there is a non-occupant borrower, use the mortgage payment (including HOA fees and subordinate lien payments) or rental payments (see B3-6-05, Monthly Debt Obligations);
  - if the subject loan is a second home or investment property, use the mortgage payment (including HOA fees and subordinate lien payments) or rental payments (see B3-6-05, Monthly Debt Obligations;
- the qualifying payment amount if the subject loan is for a second home or investment property (see B3-6-04, Qualifying Payment Requirements);
- monthly payments on installment debts and other mortgage debts that extend beyond ten months;
- monthly payments on installment debts and other mortgage debts that extend ten months or less if the payments significantly affect the borrower's ability to meet credit obligations;
- monthly payments on installment debts secured by virtual currency;

- monthly payments on revolving debts;
- monthly payments on lease agreements, regardless of the expiration date of the lease;
- monthly alimony, child support, or maintenance payments that extend beyond ten months (alimony (but not child support or maintenance) may instead be deducted from income, (see B3-6-05, Monthly Debt Obligations);
- monthly payments for other recurring monthly obligations; and
- any net loss from a rental property.

> **Note**: Fannie Mae acknowledges that lenders may sometimes 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.

DTI Ratio Tolerance and Re-Underwriting Criteria

Fannie Mae expects lenders to have in place processes to facilitate borrower disclosure of changes in financial circumstances throughout the origination process and prefunding quality control processes to increase the likelihood of discovering material undisclosed debts or reduced income. See D1-2-01, Lender Prefunding Quality Control Review Process.

As a result of the lender's normal processes and controls, the lender may need to re-underwrite the loan after initial underwriting. If the borrower discloses or the lender discovers additional debt(s) or reduced income after the underwriting decision was made up to and concurrent with loan closing, the loan must be re-underwritten if the new information causes the DTI ratio to increase by more than the allowed tolerances.

In all cases, if the lender determines that there is new subordinate financing on the subject property during the loan process, the mortgage loan must be re-underwritten.

> **Note:** Re-underwriting means that loan casefiles must be resubmitted to DU with updated information; and for manually underwritten loans, a comprehensive risk and eligibility assessment must be performed.

Applying the Re-underwriting Criteria

The following steps are required if the borrower discloses or the lender discovers additional debt(s) or reduced income after the underwriting decision was made up to and concurrent with loan closing:

Step	Description
1	The lender must document the additional debt(s) and reduced income in accordance with B3-6-01, General Information on Liabilities or B3-3, Income Assessment, as applicable. **Note**: The lender is not required to obtain a new credit report to verify the additional debt(s). However, if the lender chooses to obtain a new credit report after the initial underwriting decision was made, the loan must be re-underwritten.
2	If there is new subordinate debt on the subject property, the mortgage loan must be re-underwritten.
3	The lender must recalculate the DTI ratio. For DU loan casefiles, the DTI ratio should be recalculated outside of DU.
4	• If the recalculated DTI ratio exceeds 45% for a manually underwritten loan or 50% for a DU loan casefile, the loan is not eligible for delivery to Fannie Mae. • Manually underwritten loans: If the recalculated DTI does not exceed 45%, the mortgage loan must be re-underwritten with the updated information to determine if the loan is still eligible for delivery. Note: If the increase in the DTI ratio moves the DTI ratio above the 36% threshold, the loan must meet the credit score and reserve requirements in the Eligibility Matrix that apply to DTI ratios greater than 36% up to 45%. • DU loan casefiles: See B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report for the tolerances and resubmission requirements associated with changes impacting the DTI. • High LTV refinance loans: For loans underwritten in accordance with the Alternative Qualification Path, if the recalculated DTI ratio exceeds 45%, the loan is not eligible for delivery to Fannie Mae. If the DTI does not exceed 45%, but is increasing by 3 or more percentage points, the loan must be re-underwritten with the updated information to determine if the loan is still eligible for delivery.
5	The final loan application signed by the borrower must include all income and debts verified, disclosed, or identified during the mortgage process.
6	Upon delivery to Fannie Mae, the lender must deliver the qualifying monthly income and expense amounts that are on the final loan application. See C1-2-02, Loan Data and Documentation Delivery Requirements.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-04	May 04, 2022
Announcement SEL-2020-01	February 05, 2020
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2019-04	May 01, 2019
Announcement SEL-2018-09	December 04, 2018

B3-6-03, Monthly Housing Expense for the Subject Property (12/16/2020)

Introduction

This topic contains information about the following:

- Monthly Housing Expense
- Calculating Monthly Real Estate Tax Payment

Monthly Housing Expense

Monthly housing expense is the sum of the following and is referred to as PITIA for the subject property:

- principal and interest (P&I);
- property, flood, and mortgage insurance premiums (as applicable);
- real estate taxes;
- ground rent;
- special assessments;
- any owners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit);

- any monthly co-op corporation fee (less the *pro rata share of the master utility charges for servicing individual units that is attributable to the borrower's unit);*
- any subordinate financing payments on mortgages secured by the subject property.

> **Note:** The monthly payment of a subordinate lien associated with a business debt secured by the subject property can be excluded from the monthly housing expense if it meets the requirements of *Business Debt in the Borrower's Name in B3-6-05, Monthly Debt Obligations.*

Lenders must enter all components of the monthly housing expense on the loan application including subordinate financing P&I, homeowner's insurance, supplemental property insurance, real estate taxes, mortgage insurance, association/project dues, and other proposed housing expenses.

If the subject mortgage is secured by the borrower's principal residence, the monthly housing expense is based on the qualifying payment required in accordance with B3-6-04, Qualifying Payment Requirements. This amount is the monthly housing expense used to calculate the debt-to-income (DTI) ratio.

If the subject mortgage is secured by a second home or an investment property, the qualifying payment amount is considered one of the borrower's monthly debt obligations when calculating the DTI ratio.

Calculating Monthly Real Estate Tax Payment

The lender must base its calculation of real estate taxes for borrower qualification on no less than the current assessed value. However, the lender must project the real estate taxes if one of the following applies:

- For purchase and construction-related transactions, the lender must use a reasonable estimate of the real estate taxes based on the value of the land and the total of all new and existing improvements. This policy also applies to properties in jurisdictions where a transfer of ownership typically results in a reassessment or revaluation of the property and a corresponding increase in the amount of taxes.
- There is a tax abatement on the subject property that will last for no less than 5 years from the note date. For example:
  - for a municipality with a 10-year abatement, the lender may qualify the borrower with the reduced tax amount;
  - for a municipality with a 10-year abatement and with annual real estate tax increases in years 1 through 10, the lender must qualify the borrower with the annual taxes that will be required at the end of the 5th year after the first mortgage payment date.

The lender has the option to project the real estate taxes if the amount of taxes will be reduced based on federal, state, or local jurisdictional requirements. However, the taxes may not be reduced if an appeal to reduce them is only pending and has not been approved.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2020-02	April 01, 2020
Announcement SEL-2020-01	February 05, 2020
Announcement SEL-2019-09	December 04, 2019
Announcement SEL-2018-09	December 04, 2018

B3-6-04, Qualifying Payment Requirements (06/07/2023)

Introduction

This topic contains information on determining the borrower’s monthly PITIA used for qualifying purposes, including:

- Qualifying Payment Amount
- Additional Information About ARM Qualifying for DU Loan Casefiles

Qualifying Payment Amount

The calculation of the qualifying payment amount for the subject property will differ based on the transaction type (as shown in the following table). For all loans, the qualifying rate is based on the original loan amount and the loan amortization term.

These policies apply to both manually underwritten loans and DU loan casefiles. In all cases, qualification must consider the borrower's current obligations and other mortgage-related obligations, e.g. PITIA.

Loans subject to temporary interest rate buydowns must be qualified without consideration of the bought-down rate, based on the transaction type below.

Qualifying Interest Rate Requirements	
Transaction Type	**DU and Manual Underwriting**
Fixed-rate mortgages	Note rate
ARMs with initial fixed-rate period of three years or less	The maximum interest rate that could apply during the first five years after the first payment is due.
ARMs with initial fixed-rate period of five years	Greater of • the maximum rate that could apply during the first five years after the first payment date (note rate plus first rate change cap), or • the fully indexed rate
ARMs with an initial fixed-rate period of greater than five years	Note rate Exception: Greater of the note rate or the fully indexed rate for loans that are higher-priced mortgage loans or higher-priced covered transactions under Regulation Z (must be manually underwritten).

Additional Information About ARM Qualifying for DU Loan Casefiles

For DU loan casefiles, the fully indexed rate is defined as the index plus the margin as entered in the online loan application. The index and margin are required for all ARM loans submitted to DU.

The following table describes how DU applies the qualifying interest rate requirements based on the DU ARM Plan that is submitted in the online loan application.

ARM Type (Initial Adjustment Period)	DU ARM Plan	Standard Index Type	DU Qualifying Rate
1-Year ARMs (12 months)	FM GENERIC, 1 YR, 1% ANNUAL Cap	NA	Note rate plus 5%
1-Year ARMs (12 months)	FM GENERIC, 1 YR, 2% ANNUAL Cap	NA	Note Rate plus 6%
3-Year ARMs (36 months)	FM GENERIC, 3 YR	3 year SOFR (2/1/5)	Note rate plus 5%
5-Year ARMs (60 months)	FM GENERIC, 5 YR	5 year SOFR (2/1/5)	Greater of fully indexed rate or note rate plus 2%
7 and 10-Year ARMs (84 and 120 months respectively)	FM GENERIC, 7 YR FM GENERIC, 10 YR	7 year SOFR (5/1/5) 10 year SOFR (5/1/5)	Note rate Note: Higher-priced mortgage loans and higher-priced covered transactions must be manually underwritten if the fully indexed rate is greater than the note rate.
Any	Submission of an ARM plan number that is not recognized by DU (referred to as "Lender ARM Plan")	NA	• Qualifying rate entered in the ARM Qualifying Rate field in DU • If the ARM Qualifying Rate field is not entered, DU will use the note rate plus 5%

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-05	June 07, 2023
Announcement SEL-2022-03	April 06, 2022
Announcement SEL-2021-08	September 01, 2021

B3-6-05, Monthly Debt Obligations (05/04/2022)

Introduction

This topic describes obligations that should be considered in underwriting the loan, including:

- Alimony, Child Support, and Separate Maintenance Payments
- Bridge / Swing Loans
- Business Debt in Borrower's Name
- Court-Ordered Assignment of Debt
- Debts Paid by Others
- Non-Applicant Accounts
- Deferred Installment Debt
- Federal Income Tax Installment Agreements
- Garnishments
- Home Equity Lines of Credit
- Installment Debt
- Lease Payments
- Rental Housing Payment
- Loans Secured by Financial Assets
- Open 30–Day Charge Accounts
- Other Real Estate Owned—Qualifying Impact
- Revolving Charge/Lines of Credit
- Student Loans

Alimony, Child Support, and Separate Maintenance Payments

When the borrower is required to pay alimony, child support, or separate maintenance payments under a divorce decree, separation agreement, or any other written legal agreement—and those payments must continue to be made for more than ten months—the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration and an exception is allowed for alimony. A copy of the divorce decree, separation agreement, court order, or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.

For alimony and separate maintenance obligations, the lender has the option to reduce the qualifying income by the amount of the obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio.

> **Note**: For loan casefiles underwritten through DU, when using the option of reducing the borrower's monthly qualifying income by the alimony or separate maintenance payment, the lender must enter the amount of the monthly obligation as a negative alimony or separate maintenance income amount. (If the borrower also receives alimony or separate maintenance income, the amounts should be combined and entered as a net amount.)

Bridge / Swing Loans

When a borrower obtains a bridge (or swing) loan, the funds from that loan can be used for closing on a new principal residence before the current residence is sold. This creates a contingent liability that must be considered part of the borrower's recurring monthly debt obligations and included in the DTI ratio calculation.

Fannie Mae will waive this requirement and not require the debt to be included in the DTI ratio if the following documentation is provided:

- a fully executed sales contract for the current residence, and
- confirmation that any financing contingencies have been cleared.

Business Debt in Borrower's Name

When a self-employed borrower claims that a monthly obligation that appears on their personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business.

The account payment does not need to be considered as part of the borrower's DTI ratio if:

- the account in question does not have a history of delinquency,
- the business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks), and
- the lender's cash flow analysis of the business took payment of the obligation into consideration.

The account payment must be considered as part of the borrower's DTI ratio in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds.
- If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow

analysis of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.

- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.

Court-Ordered Assignment of Debt

When a borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the borrower from liability, the borrower has a contingent liability. The lender is not required to count this contingent liability as part of the borrower's recurring monthly debt obligations.

The lender is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The lender cannot disregard the borrower's payment history for the debt before its assignment.

Debts Paid by Others

Certain debts can be excluded from the borrower's recurring monthly obligations and the DTI ratio:

- When a borrower is obligated on a non-mortgage debt - but is not the party who is actually repaying the debt - the lender may exclude the monthly payment from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt, but is not applicable if the other party is an interested party to the subject transaction (such as the seller or real estate agent). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance. See below for treatment of payments due under a federal income tax installment agreement.

- When a borrower is obligated on a mortgage debt - but is not the party who is actually repaying the debt - the lender may exclude the full monthly housing expense (PITIA) from the borrower's recurring monthly obligations if
  - the party making the payments is obligated on the mortgage debt,
  - there are no delinquencies in the most recent 12 months, and
  - the borrower is not using rental income from the applicable property to qualify.

In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the lender must obtain the most recent 12 months' canceled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.

When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties (if applicable per B2-2-03, Multiple Financed Properties for the Same Borrower.

Non-Applicant Accounts

Credit reports may include accounts identified as possible non-applicant accounts (or with other similar notation). Non-applicant accounts may belong to the borrower, or they may truly belong to another individual.

Typical causes of non-applicant accounts include:

- applicants who are Juniors or Seniors,
- individuals who move frequently,
- unrelated individuals who have identical names, and
- debts the borrower applied for under a different Social Security number or under a different address. These may be indicative of potential fraud.

If the debts do not belong to the borrower, the lender may provide supporting documentation to validate this, and may exclude the non-applicant debts for the borrower's DTI ratio. If the debts do belong to the borrower, they must be included as part of the borrower's recurring monthly debt obligations.

Deferred Installment Debt

Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, the lender must obtain copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations.

For information about deferred student loans, see Student Loans below.

Federal Income Tax Installment Agreements

When a borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the lender may include the monthly payment amount as part of the borrower's monthly debt obligations (in lieu of requiring payment in full) if:

- There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.
- The lender obtains the following documentation:
  - an approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
  - evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.

As a reminder, lenders remain responsible under the life-of-loan representations and warranties for clear title and first-lien enforceability in accordance with A2-2-07, Life-of-Loan Representations and Warranties.

The payments on a federal income tax installment agreement can be excluded from the borrower's DTI ratio if the agreement meets the terms in Debts Paid by Others or *Installment Debt* described above. If any of the above conditions are not met, the borrower must pay off the outstanding balance due under the installment agreement with the IRS in accordance with B3-6-07, Debts Paid Off At or Prior to Closing

Garnishments

All garnishments with more than ten months remaining must be included in the borrower's recurring monthly debt obligations for qualifying purposes.

Home Equity Lines of Credit

When the mortgage that will be delivered to Fannie Mae also has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment, there is no recurring monthly debt obligation so the lender does not need to develop an equivalent payment amount.

Installment Debt

All installment debt that is not secured by a financial asset—including student loans, automobile loans, personal loans, and timeshares—must be considered part of the borrower's recurring monthly debt obligations if there are more than ten monthly payments remaining. However, an installment debt with fewer monthly payments remaining also should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet their credit obligations. See below for treatment of payments due under a federal income tax installment agreement.

> **Note:** A timeshare account should be treated as an installment debt regardless of how it is reported on the credit report or other documentation (that is, even if reported as a mortgage loan).

Lease Payments

Lease payments must be considered as recurring monthly debt obligations regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house.

Rental Housing Payment

The housing payment for each borrower's principal residence must be considered when underwriting the loan. For the following scenarios, the borrower's monthly rental housing payment must be evaluated (if the borrower does not otherwise have a mortgage payment or no housing expense):

- for non-occupant borrowers, and
- for second homes or investment properties.

The following list provides examples of acceptable documentation to verify the rental payment:

- six months canceled checks or equivalent payment source;
- six months bank statements reflecting a clear and consistent payment to an organization or individual;
- direct verification of rent from a management company or individual landlord; or
- a copy of a current, fully executed lease agreement and two months canceled checks (or equivalent payment source) supporting the rental payment amount.

> **Note:** Refer to B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History for rental payment history requirements when using non-traditional credit.

Loans Secured by Financial Assets

When a borrower uses their financial assets—life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.—as security for a loan, the borrower has a contingent liability.

The lender is not required to include this contingent liability as part of the borrower's recurring monthly debt obligations provided the lender obtains a copy of the applicable loan instrument that shows the borrower's financial asset as collateral for the loan. If the borrower intends to use the same asset to satisfy financial reserve requirements, the lender must reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

> **Note:** Payment on any debt secured by virtual currency is an exception to the above policy and must be included when calculating the debt-to-income ratio.

Open 30–Day Charge Accounts

Open 30–day charge accounts require the balance to be paid in full every month. Fannie Mae does not require open 30–day charge accounts to be included in the debt-to-income ratio.

See B3-6-07, Debts Paid Off At or Prior to Closing, for additional information on open 30–day charge accounts.

Other Real Estate Owned—Qualifying Impact

For details regarding the qualifying impact of other real estate owned, see B3-6-06, Qualifying Impact of Other Real Estate Owned.

Revolving Charge/Lines of Credit

Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of the borrower's recurring monthly debt obligations. These tradelines include credit cards, department store charge cards, and personal lines of credit. Equity lines of credit secured by real estate should be included in the housing expense.

If the credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%, the lender must use 5% of the outstanding balance as the borrower's recurring monthly debt obligation.

For DU loan casefiles, if a revolving debt is provided on the loan application without a monthly payment amount, DU will use the greater of $10 or 5% of the outstanding balance as the monthly payment when calculating the total debt-to-income ratio.

Student Loans

If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.

If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below.

- If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is $0. The lender may then qualify the borrower with a $0 payment.
- For deferred loans or loans in forbearance, the lender may calculate
  - a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
  - a fully amortizing payment using the documented loan repayment terms.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements and Release Notes	Issue Date
Announcement SEL-2022-04	May 04, 2022
Announcement SEL-2020-07	December 16, 2020

Announcements and Release Notes	Issue Date
Announcement SEL-2020-01	February 05, 2020
Announcement SEL-2019-09	December 04, 2019
Announcement SEL-2019-08	October 02, 2019
Announcement SEL-2018-09	December 04, 2018
Announcement SEL-2018-01	January 30, 2018

B3-6-06, Qualifying Impact of Other Real Estate Owned (06/30/2015)

Introduction

This topic describes the qualifying impact of other real estate owned, including:

- Qualifying Considerations
- Mortgage Assumption
- Property Settlement Buyout
- Current Principal Residence Pending Sale

Qualifying Considerations

When the borrower owns mortgaged real estate, the status of the property determines how the existing property's PITIA must be considered in qualifying for the new mortgage transaction. If the mortgaged property owned by the borrower is

- an existing investment property or a current principal residence converting to investment use, the borrower must be qualified in accordance with, but not limited to, the policies in topics B3-3.1-08, Rental Income, B3-4.1-01, Minimum Reserve Requirements, and, if applicable B2-2-03, Multiple Financed Properties for the Same Borrower;
- an existing second home or a current principal residence converting to a second home, the PITIA of the second home must also be counted as part of the borrower's recurring monthly debt obligations; or
- the borrower's current principal residence that is pending sale but will not close (with title transfer to the

new owner) prior to the subject transaction, the lender must comply with the policies in this topic.

In conjunction with the policies in this topic, the lender must also comply with the policies in B2-2-03, Multiple Financed Properties for the Same Borrower, B3-3.1-08, Rental Income, and B3-4.1-01, Minimum Reserve Requirements, as applicable.

Mortgage Assumption

When a borrower sells a mortgaged property and the property purchaser assumes the outstanding mortgage debt without a release of liability, the borrower has a contingent liability.

The lender is not required to count this contingent liability (PITIA) as part of the borrower's recurring monthly debt obligations if the lender verifies that the property purchaser has at least a 12-month history of making regular, timely payments for the mortgage. The lender can document this by obtaining

- evidence of the transfer of ownership;
- a copy of the formal, executed assumption agreement; and
- a credit report indicating that consistent and timely payments were made for the assumed mortgage.

If the lender cannot document timely payments during the most recent 12-month period, the applicable mortgage payment must be counted as part of the borrower's recurring monthly debt obligations.

Property Settlement Buyout

When a borrower's interest in a property is bought out by another co-owner of the property, as often happens in a divorce settlement, but the lender does not release the borrower from liability under the mortgage, the borrower has a contingent liability.

If the lender obtains documentation to confirm the transfer of title to the property, this liability does not have to be considered as part of the borrower's recurring monthly debt obligations.

Current Principal Residence Pending Sale

If the borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan.

However, Fannie Mae will not require the current principal residence's PITIA to be used in qualifying the borrower as long as the following documentation is provided:

- the executed sales contract for the current residence, and
- confirmation that any financing contingencies have been cleared.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B3-6-07, Debts Paid Off At or Prior to Closing (04/05/2023)

Introduction

This topic contains information on debts paid off at or prior to closing, including:

- Payoff or Paydown of Debt for Qualification
- Open 30-Day Charge Accounts
- Collections, Charge-Offs of Non-Mortgage Accounts, Judgments, and Liens

Payoff or Paydown of Debt for Qualification

Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. Generally

- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower's long-term debt.
- If a revolving account balance is to be paid off at or prior to closing, a monthly payment on the current outstanding balance does not need to be included in the borrower's long-term debt, i.e., not included in the debt-to-income (DTI) ratio. Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio.

See B3-6-02, Debt-to-Income Ratios for additional guidance on calculating total monthly obligations for qualifying purposes.

Open 30-Day Charge Accounts

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, lenders must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.

> **Note**: DU will include the balance of the 30-day charge accounts on the loan application in the Reserves Required to be Verified amount shown on the DU Underwriting Findings report. However, for transactions that do not require the verification of reserves, the balance of 30–day charge accounts in

> the Reserves Required to be Verified amount will be reduced by any cash out the borrower will receive through the transaction.

If the borrower paid off the account balance prior to closing, the lender may provide proof of payoff in lieu of verifying funds to cover the account balance.

Collections, Charge-Offs of Non-Mortgage Accounts, Judgments, and Liens

Delinquent credit—including taxes, judgments, charge-offs of non-mortgage accounts (see below for exceptions), tax liens, mechanic's or materialmen's liens, and liens that have the potential to affect Fannie Mae's lien position or diminish the borrower's equity—must be paid off at or prior to closing.

Delinquent federal income taxes that are approved to be paid by a monthly installment agreement with the IRS must be paid in full at or prior to closing if there is any indication that a Notice of Federal Tax Lien has been recorded against the borrower in the county in which the subject property is located. For additional information about federal income tax installment agreements, see B3-6-05, Monthly Debt Obligations.

For details regarding delinquent federal income taxes that the IRS has approved to be paid through an installment agreement that can be included as a monthly debt obligation, rather than being paid in full, also see B3-6-05, Monthly Debt Obligations.

For manually underwritten loans, non-medical collection accounts and charge-offs on non-mortgage accounts do not have to be paid off at or prior to closing if the balance of an individual account is less than $250 or the total balance of all accounts is $1,000 or less. Non-medical collection accounts and charge-offs on non-mortgage accounts that exceed these limits must be paid off at or prior to closing.

For DU underwritten loans, refer to B3-5.3-09, DU Credit Report Analysis.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-03	April 05, 2023
Announcement SEL-2018-01	January 30, 2018

B3-6-08, DU: Requirements for Liability Assessment (01/27/2015)

Introduction

This topic contains information on DU requirements for liability assessment, including:

- Reconciling the Loan Application with the Credit Report
- Auto-Populating DU Liabilities from the Credit Report

Reconciling the Loan Application with the Credit Report

DU uses liabilities from the loan application, not debts from the credit report, to calculate the debt-to-income ratio.

To help ensure that all appropriate liabilities are included in the debt-to-income ratio, DU performs a series of reasonableness tests comparing loan application balances and payments with the credit report balances and payments. If the values on the loan application are less than the values on the credit report by more than selected tolerances, the lender must justify the discrepancies between the two. The lender must update the loan application values if the values are needed to calculate accurate ratios. The information must be updated either with verified values from the credit report or with independent, outside verifications.

Auto-Populating DU Liabilities from the Credit Report

The lender can automatically copy the borrower's liabilities from the credit report to the loan application by selecting the auto-populate liabilities option from DU when the credit report is ordered. If the lender's loan origination system does not offer this option, or if the lender elects not to use it, the liabilities must be entered manually into the loan application.

When the auto-populate option is selected, it is not necessary to obtain additional borrower disclosure for tradelines appearing on the credit report. The lender is still required to obtain full disclosure from all borrowers, including borrowers who do not have traditional credit, of all existing credit obligations. Liabilities that do not appear on the credit report, such as monthly housing expenses for taxes, insurance, must be disclosed in the loan application prior to final submission to DU.

If the auto-populate liabilities option is selected BEFORE liabilities have been manually entered in the loan application:

- Open accounts will be automatically copied to the loan application.
- Closed accounts on the credit report are not automatically copied to the loan application. If the account has an outstanding balance, the lender must manually enter the liability in the loan application and include the monthly payment in the debt-to-income ratio.
- Collection accounts on the credit report are not automatically copied to the loan application.

If the auto-populate liabilities option is selected AFTER liabilities have been manually entered in the loan application:

- DU will attempt to match existing liability accounts listed on the loan application to the credit report liabilities by using a combination of account name and account number.
- Open accounts from the credit report that were not manually entered on the loan application will be automatically copied to the loan application.
- DU will use the information on the loan application to calculate the debt-to-income ratio.

If duplicate accounts or accounts that do not belong to the borrower were copied to the loan application and included in the debt-to-income ratio, they may be omitted (or deleted) from the loan application. Debts that are omitted will not be counted in the debt-to-income ratio.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Subpart B4, Underwriting Property

Introduction

This subpart contains property underwriting and appraisal requirements for conventional loans.

Chapter B4-1, Property Assessment and Valuation

Introduction

This chapter explains Fannie Mae’s property assessment and valuation requirements, including documentation, appraisal and data collection requirements.

Section B4-1.1, General Appraisal Requirements

B4-1.1-01, Definition of Market Value (04/15/2014)

Introduction

This topic contains information on the definition of market value.

- Definition of Market Value

Definition of Market Value

Market value is the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- buyer and seller are typically motivated;
- both parties are well informed or well advised, and each acting in what they consider to be in their own best interest;
- a reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

> **Note**: Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs that are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable because the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession, but the dollar amount of any adjustment should approximate the market’s reaction to the financing or concessions based on the appraiser’s judgment.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B4-1.1-02, Lender Responsibilities (03/01/2023)

Introduction

This topic contains information on lender requirements, including:

Lender Responsibilities

The lender is responsible for ensuring that the subject property provides adequate collateral for the mortgage. For most loans, Fannie Mae requires that the lender obtain a signed and complete appraisal report that accurately reflects the market value, condition, and marketability of the property. Some loans may be eligible for a value acceptance option, and an appraisal is not required if the lender exercises the option and complies with the related requirements. (See B4-1.4-10, Value Acceptance (Appraisal Waiver) and B4-1.4-11, Value Acceptance + Property Data, for additional information.)

If an appraisal is obtained, the lender is responsible for

- compliance with the *Appraiser Independence Requirements*;
- selection of the appraiser (see B4-1.1-03, Appraiser Selection Criteria);
- compliance with the Uniform Appraisal Dataset (UAD) when applicable (see B4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP));
- ensuring the appraiser has utilized sound reasoning and provided evidence to support the methodology chosen to develop the value opinion, particularly in cases that are not covered by Fannie Mae policy;
- successful submission of the appraisal through the UCDP prior to delivery (see B4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP)); and
- continually evaluating the appraiser's work through the quality control process (see B4-1.3-12, Quality Assurance).

If the transaction involves property data collection, the lender is responsible for

- compliance with the *Appraiser Independence Requirements* for any property data collectors;
- selection of the property data collector (see B4-1.4-11, Value Acceptance + Property Data);
- successful submission of the data to Fannie Mae's Property Data API prior to loan delivery; and
- continually evaluating the property data collector's work through the quality control process (see D1-3-04, Lender Post-Closing Quality Control Review of Appraisers, Appraisals, Property Data Collectors, and Property Data Collection).

Confirmation and Documentation of the Current Owner

Confirmation that the property seller in a purchase money transaction (or the borrower in a refinance transaction) is the owner of the subject property based on publicly available information helps to identify property flipping schemes, which typically involve various combinations of transactions and result in a sale of a recently acquired property for significant profit based on a misleading or fraudulent appraisal with an inflated property value.

Lenders must confirm and document in the mortgage file that the property seller in a purchase money transaction or the borrower in a refinance transaction is the owner of the subject property when an appraisal is required. Examples of acceptable documentation include, but are not limited to:

- a copy of a recorded deed, mortgage, or deed of trust,
- a recent property tax bill or tax assessment notice,
- a title report,
- a title commitment or binder, or
- a property sale history report.

This documentation is especially important for transactions involving an assignment (or sale) of a contract for sale and back-to-back, simultaneous, double transaction closings, or double escrows to support the property acquisition, financing, and closing.

When the transaction is part of an employee relocation, the relocation company may be the assignee of the seller, which should be indicated on the sales contract. Additionally, the appraiser must comment on this condition in the appraisal report.

Objective and Unbiased Appraisals

A lender must ensure that the appraiser

- described the property and the neighborhood in factual, unbiased, and specific terms;
- considered all factors that have an effect on value; and
- was objective and unbiased in the development of the opinion of market value in the appraisal report.

A number of federal, state, and local laws prohibit discrimination in the appraisal of housing. Fannie Mae expects professional appraisers to fully understand that discriminatory valuation and appraisal reporting practices are not only illegal, but also unethical. Unintentional discrimination can occur in the appraisal report as the result of what an appraiser states, or fails to state. The lender and appraiser must ensure the appraisal is not in violation of any unacceptable appraisal practices (see B4-1.1-04, Unacceptable Appraisal Practices).

Reporting Unfavorable Conditions

The lender must ensure that appraiser comments regarding unfavorable conditions, such as the existence of an adverse environmental or economic factor, also discuss how the condition affects the value or marketability of the property being appraised and explain how the condition was taken into consideration in the valuation process. In such cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected whenever possible. The appraiser must address the impact these factors may have, if any, on the value and marketability of the subject property. (See B4-1.3-06, Property Condition and Quality of Construction of the Improvements, for further information).

Recent Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2021-10	November 03, 2021
Announcement SEL-2018-07	September 04, 2018
Announcement SEL-2018-05	June 05, 2018

B4-1.1-03, Appraiser Selection Criteria (10/05/2022)

Introduction

This topic contains general information on appraiser selection, including:

- Appraiser License and Certification
- Appraiser Trainees
- Knowledge and Experience
- Selection of the Appraiser
- Supervisory Appraiser

Appraiser License and Certification

Fannie Mae requires a lender (or its authorized agent) to use appraisers or supervisory appraisers that are state-licensed or state-certified (in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and all applicable state laws). The lender (or its authorized agent) must document that the appraisers it uses are licensed or certified as appropriate under the applicable state law. The lender must ensure that the state license or state certification is active as of the effective date of the appraisal report. The appraiser must note their license or certification number on the individual appraisal report forms, in compliance with the Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements.

Fannie Mae's appraisal report forms identify the appraiser as the individual who

- performed the analysis, and
- prepared and signed the appraisal report as the appraiser.

This does not preclude appraisers from relying on individuals who are not state-licensed or state-certified to provide significant professional assistance, such as an appraiser trainee or an employee of the appraiser doing market data research or data verification in the development of the appraisal. Under some state laws, a lender's use of an unlicensed or uncertified appraiser that is working as an employee or sub-contractor of a licensed or certified appraiser will satisfy the state's licensing and certification requirement, as long as the appraisal report is signed by a state-licensed or state-certified supervisory or review appraiser. The state-licensed or state-certified appraiser that signs the appraisal report must acknowledge in the report the extent of the professional assistance provided by others and the specific tasks performed by each individual, and must certify that each named individual is qualified to perform the tasks.

Appraiser Trainees

Fannie Mae allows an unlicensed or uncertified appraiser, or trainee (or other similar classification) to perform a significant amount of the appraisal (or the entire appraisal if they are qualified to do so). If an unlicensed or uncertified individual provides significant professional assistance, they must sign the left side of the appraiser certification as the Appraiser if

- they are working under the supervision of a state-licensed or state-certified appraiser as an employee or sub-contractor,
- the right side of the appraiser certification is signed by that supervisory appraiser, and
- it is acceptable under state law.

If the jurisdiction does not provide license numbers for trainees, the term "Trainee" should be entered in the "Other" field in the Appraiser Certification section.

Knowledge and Experience

Lenders must use appraisers that

- have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and particular property type; and
- have the requisite knowledge about, and access to, all necessary and appropriate local data sources for

the subject property's geographic area, including multiple listing service(s) and government records.

Appraisers that are not familiar with specific real estate markets may not have adequate information available to perform a reliable appraisal. Although the Uniform Standards of Professional Appraisal Practice (USPAP) allows an appraiser that does not have the appropriate knowledge and experience to accept an appraisal assignment by providing procedures with which the appraiser can complete the assignment, Fannie Mae does not allow the USPAP flexibility.

Selection of the Appraiser

The lender

- is responsible for the selection of appraisers and for the qualifications and quality of work provided by the appraisers that are selected;
- may not use appraisals ordered or received by borrowers or other parties with an interest in the transaction, such as the property seller or real estate agent. Fannie Mae does allow lenders to use third-party vendors (for example, appraisal management companies) to manage the appraiser selection process. However, it should be noted that if a lender enters into a contract with any vendor, contractor, or third-party service provider, the lender is accountable for the quality of the work performed as if it was performed by an employee of the lender.

The lender (or its authorized agent)

- must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements, including the *Appraiser Independence Requirements.*
- must ensure that an appraiser has demonstrated the ability to perform high-quality appraisals before using an appraiser's services. The quality of an appraiser's work is a key criterion that must be used in determining which appraiser the lender (or its authorized agent) uses for its assignments. The requirement for an appraiser to produce a high-quality work product must always outweigh fee or turnaround time considerations.

Delegating these responsibilities to a third party does not relieve the lender of its responsibilities related to the appraisal or the value, condition, and marketability of the property. See B4-1.3-12, Quality Assurance, for information related to ongoing review of appraisals.

> **Note**: Fannie Mae does not approve appraisers. Therefore, when selecting appraisers, lenders must not give any consideration to an appraiser's representation that they are approved or qualified by Fannie Mae.

Supervisory Appraiser

As noted in the License and Certification section in this topic, Fannie Mae allows an unlicensed or uncertified appraiser, or trainee (or other similar classification) that works as an employee or subcontractor of a licensed or certified appraiser, to perform a significant amount of the appraisal (or the entire appraisal if they are qualified to do so), as long as the appraisal report is signed by a licensed or certified supervisory or review appraiser and is acceptable under state law.

If a supervisory appraiser is used, the supervisory appraiser does not need to physically inspect the subject property or comparables, but must sign the right side of the report and certify that they

- directly supervised the appraiser that prepared the appraisal report,
- have reviewed the appraisal report,
- agree with the statements and conclusions of the appraiser,
- agree to be bound by certifications as set forth in Fannie Mae's appraisal report forms, and
- take full responsibility for the appraisal report.

A supervisory appraiser may not sign the left-hand side of the appraisal report unless they have met the requirements of the appraiser as noted in the License and Certification section in this topic.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-09	October 05, 2022
Announcement SEL-2022-01	February 02, 2022

B4-1.1-04, Unacceptable Appraisal Practices (02/02/2022)

Introduction

This topic contains examples of unacceptable practices, many of which are reflected in the appraiser's certifications on the appraisal reports.

- Unacceptable Appraisal Practices

Unacceptable Appraisal Practices

The following are examples of unacceptable appraisal practices:

- development of or reporting an opinion of market value that is not supportable by market data or is misleading;

- development of a valuation conclusion based either partially or completely on the sex, race, color, religion, disability, national origin, familial status, or including a reference to any protected class of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property;
- use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process and the use of subjective terminology, including, but not limited to:
  - "pride of ownership," "no pride of ownership," and "lack of pride of ownership";
  - "poor neighborhood";
  - "good neighborhood";
  - "crime-ridden area";
  - "desirable neighborhood or location"; or
  - "undesirable neighborhood or location";
- development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited;
- misrepresentation of the physical characteristics of the subject property, improvements, or comparable sales;
- failure to comment on negative factors with respect to the subject neighborhood, the subject property, or proximity of the subject property to adverse influences;
- failure to adequately analyze and report any current contract of sale, option, offering, or listing of the subject property and the prior sales of the subject property and the comparable sales;
- selection and use of inappropriate comparable sales;
- failure to use comparable sales that are the most locationally and physically similar to the subject property;
- creation of comparable sales by combining vacant land sales with the contract purchase price of a home that has been built or will be built on the land;
- failure to personally inspect the exterior of the comparable property when required by the scope of work in the appraisal report;
- use of adjustments to comparable sales that do not reflect market reaction to the differences between the subject property and the comparable sales;
- not supporting adjustments in the sales comparison approach;
- failure to make adjustments when they are clearly indicated;
- use of data, particularly comparable sales data, provided by parties that have a financial interest in the sale or in the financing of the subject property without the appraiser's verification of the information from a disinterested source;
- development of an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the client or any related party, the amount of the opinion of value, the attainment of a specific result, or the occurrence of a subsequent event in order to receive compensation or employment for performing the appraisal or in anticipation of receiving future assignments; or
- development of or reporting an appraisal in a manner that is inconsistent with the requirements of

USPAP.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-01	February 02, 2022
Announcement SEL-2021-10	November 03, 2021

B4-1.1-05, Disclosure of Information to Appraisers (12/06/2016)

Introduction

This topic contains information on lender disclosure of information to appraisers, including:

- Overview
- Sales Contract Information
- Information Disclosed to the Appraiser
- Contract Changes After the Appraisal is Completed

Overview

Any and all information about the subject property that the lender is aware of must be disclosed to the appraiser. The appraiser must determine if the information could affect either the marketability of the property or the opinion of the market value of the property.

Sales Contract Information

All financing data and sales concessions for the subject property that will be or have been granted by anyone associated with the transaction must be disclosed to the appraiser, as appropriate. Typically, this information is provided in the sales contract. Therefore, the lender must provide, or ensure that the appraiser is provided with, a copy of the complete, ratified sales contract and all addenda for the property that is to be appraised.

Information Disclosed to the Appraiser

Financial Information

The list below includes items that must be disclosed to the appraiser on purchase transactions, if applicable:

- settlement charges,
- loan fees or charges,
- discounts to the sales price,
- interest rate buydowns,
- below-market-rate financing,
- terms of any subordinate financing provided by interested parties,
- credits or refunds of borrower expenses,
- absorption of monthly payments,
- assignment of rent payments, and
- any other information not listed above that impacts property value.

Property Information

The list below includes items that must be disclosed, if applicable:

- condo or PUD fees;
- non-realty items included in the transaction;
- any environmental hazard in or on the subject property or in the vicinity of the property that the lender is aware of or learns from the borrower, the real estate agent, or any other party to the transaction (see B4-1.4-08, Environmental Hazards Appraisal Requirements); and
- any other items that affect the safety, soundness, or structural integrity of a property of which the lender may be aware.

Contract Changes After the Appraisal is Completed

If the contract is amended *after* the effective date of the appraisal in a way that does not affect the description of the property, then the lender is not required to provide the amended contract to the appraiser nor obtain a revised appraisal. Some examples of amendments that do not require the lender to provide the amended contract nor obtain revisions to the already-completed appraisal report include:

- sale price,
- transaction terms,
- financing concessions,
- seller-paid closing costs,

- names or initials,
- closing date, and
- correction of minor clerical errors such as misspellings.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP) (02/02/2022)

Introduction

This topic contains information on the Uniform Appraisal Dataset and the Uniform Collateral Data Portal, including:

- Uniform Appraisal Dataset (UAD)
- Uniform Collateral Data Portal (UCDP)

Uniform Appraisal Dataset (UAD)

The UAD standardizes appraisal data elements for a subset of fields on specific appraisal report forms and includes all data elements required to complete these forms. Fannie Mae requires that the following appraisal report forms are completed utilizing Appendix D of the UAD Specification when reporting the results of an appraisal for a conventional loan:

- *Uniform Residential Appraisal Report* (Form 1004), and
- *Individual Condominium Unit Appraisal Report* (Form 1073).

> **Note:** *Uniform Residential Appraisal Report (Desktop)* (Form 1004 Desktop) should adhere to the UAD specification for Form 1004.

Other appraisal report forms may be completed using the standards contained in the UAD Specification to the extent those standards are applicable to that particular form. Lenders may obtain the most recent version of Appendix D of the Uniform Appraisal Dataset Specification and additional information on Fannie Mae's website.

Uniform Collateral Data Portal (UCDP)

The UCDP is a portal through which lenders are required to electronically submit appraisal reports for conventional loans delivered to Fannie Mae. The following appraisal report forms including all exhibits, addenda, and photographs, must be submitted through the UCDP and receive a "Successful" status from the UCDP prior to the delivery date of the loan:

- *Uniform Residential Appraisal Report* (Form 1004),
- *Uniform Residential Appraisal Report (Desktop)* (Form 1004 Desktop),
- *Manufactured Home Appraisal Report* (Form 1004C),
- *Small Residential Income Property Appraisal Report* (Form 1025),
- *Individual Condominium Unit Appraisal Report* (Form 1073), and
- *Individual Cooperative Interest Appraisal Report* (Form 2090).

If there are subsequent revisions to the appraisal report, the final version of the report that was utilized in making the underwriting decision must be submitted through the UCDP and receive a "Successful" status from the UCDP prior to the delivery of the loan. When submitting an appraisal report through the UCDP, lenders must ensure that it is the unaltered report submitted by the identified appraiser.

Additionally, for loans that require an appraisal, lenders must ensure that the appraised value as indicated on the appraisal submitted in UCDP matches the appraised value as reported at delivery. An exception is allowed for this requirement when the appraisal used to underwrite the loan is a desk or field review of an existing appraisal because those types of reports cannot be uploaded to UCDP. In those instances, the appraised value reported at delivery will reflect the value as stated in the desk or field review. However, the original appraisal that was the subject of review must have been submitted to UCDP.

Appraisal report forms not listed above cannot be delivered through UCDP with the exception of the *Appraisal Update and/or Completion Certificate (Form 1004D)*, which is optional. Lenders must maintain the applicable appraisal report and attachments in the loan file as part of the underwriting documents in accordance with A2-4.1-02, Ownership and Retention of Loan Files and Records. Lenders may obtain detailed information on the UCDP page on Fannie Mae's website.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-01	February 02, 2022
Announcement SEL-2019-06	July 03, 2019
Announcement SEL-2018-06	August 07, 2018

Section B4-1.2, Documentation Standards

B4-1.2-01, Appraisal Report Forms and Exhibits (03/01/2023)

Introduction

This topic contains information on appraisal report forms and exhibits, including:

- Scope of Work
- List of Appraisal Report Forms
- Exhibits for Appraisals
- Appraiser Certifications and Limiting Conditions

Scope of Work

Appraisers must use the most recent version of the appraisal report forms and include any other information, either as an attachment or addendum to the appraisal report form, needed to adequately support the opinion of market value. Although the scope of work for the appraisal or the extent of the appraisal process is guided by Fannie Mae's appraisal report forms, the forms do not limit or control the appraisal process. The appraiser's analysis should go beyond any limitations of the forms, with additional comments and exhibits being used if they are needed to adequately describe the subject property, document the analysis and valuation process, or support the appraiser's conclusions. The extent of the appraiser's data collection, analysis, and reporting must be determined by the complexity of the appraisal assignment.

List of Appraisal Report Forms

Appraisal reports must be completed on one of the following Fannie Mae appraisal forms.

Form	Purpose
Uniform Residential Appraisal Report (Form 1004)	For traditional appraisals of one-unit properties and units in PUDs (including those that have an illegal second unit or accessory dwelling unit) based on an interior and exterior on-site physical inspection of the property by the appraiser. Form 1004 also may be used for two-unit properties, if each of the units is occupied by one of the co-borrowers as their principal residence or if the value of the legal second unit is relatively insignificant in relation to the total value of the property (as might be the case for a basement unit or a unit over a garage). In addition, appraisals for units in condo projects that consist solely of detached dwellings may be documented on Form 1004, if the appraiser includes an adequate description of the project and information about the homeowners' association fees and the quality of the project maintenance. Appraisals reported on Form 1004 must be completed in accordance with the UAD Specification.
Uniform Residential Appraisal Report (Desktop) (Form 1004 Desktop)	For appraisals of one-unit properties and units in PUDs (including those that have an illegal second unit or accessory dwelling unit) that are not based on an interior and exterior on-site physical inspection of the property by the appraiser. The property data may be collected through secondary data sources or by someone other than the appraiser. This form is not designed to report an appraisal for a manufactured home, or for a unit in a condo or co-op project. Appraisals reported on Form 1004 Desktop must be completed in accordance with the UAD Specification.
Uniform Residential Appraisal Report (Hybrid) (Form 1004 Hybrid)	For appraisals of one-unit properties and units in PUDs (including those that have an illegal second unit or accessory dwelling unit) that are based on interior and exterior property data collection. This form is not designed to report an appraisal for a manufactured home, or for a unit in a condo or co-op project. Appraisals reported on Form 1004 Hybrid must be completed in accordance with the UAD Specification.
Manufactured Home Appraisal Report (Form 1004C)	For traditional appraisals of one-unit manufactured homes (including manufactured homes in a PUD, condo, or co-op project, and MH Advantage properties) based on interior and exterior property inspections.
Individual Condominium Unit Appraisal Report (Form 1073)	For traditional appraisals of one-unit properties in condo projects based on interior and exterior property inspections. Appraisals reported on Form 1073 must be completed in accordance with the UAD Specification.

Form	Purpose
Individual Cooperative Interest Appraisal Report (Form 2090)	For traditional appraisals of one-unit properties in co-op projects based on interior and exterior property inspections
Small Residential Income Property Appraisal Report (Form 1025)	For traditional appraisals of two- to four-unit properties (including two- to four-unit properties in PUD, condo, or co-op projects) based on interior and exterior property inspections.
Appraisal Update and/or Completion Report (Form 1004D)	For appraisal updates and/or completion reports for all one- to four-unit properties. See B4-1.2-05, Requirements for Verifying Completion and Postponed Improvements for information about completion alternative methods for the Form 1004D.

Exhibits for Appraisals

The exhibits in the following table must accompany the appraisal report. It should be noted that, in addition to these requirements, the appraiser is expected to provide any additional attachments or addenda to the appraisal report necessary to provide an adequately supported opinion of market value.

Exhibit	Requirements
Building footprint sketch or floor plan and calculations	A footprint sketch or floor plan must be software-generated (not hand drawn) and indicate dimensions and calculations that demonstrate how the gross living area was derived. The sketch must include the subject's exterior footprint with dimensions. All levels of the dwelling unit(s) must be part of the exhibit. In addition, a separate footprint sketch including dimensions must be provided for each additional structure with room labels, when applicable. A floor plan is required for certain appraisal reports. Refer to the "STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS" included in each Fannie Mae appraisal report to determine if a floor plan is required. If the interior layout of the dwelling unit(s) is atypical or functionally obsolete, thus limiting the market appeal for the property in comparison to competitive properties in the neighborhood, Fannie Mae also requires a floor plan. The floor plan must include the following: • interior walls, • doorways, • staircases, • exterior ingress/egress, • labels for each room, and • provide the dimensions of all exterior walls. For a unit in an apartment-style condo or co-op project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions (dimensions and estimates for gross living area shown in the condo documents are acceptable). See *Gross Living Area* in B4-1.3-05, Improvements Section of the Appraisal Report for additional information.
Street map	A map showing the location of the subject property and the comparables that the appraiser used.
Exterior photographs	Clear, descriptive color photographs showing the front, back, and a street scene of the subject property and the front of each comparable. The subject and all comparables must be appropriately identified. Photographs of comparable rentals utilized in the *Small Income Residential Appraisal Report (Form 1025) are not required.*

Exhibit	Requirements
Interior photographs	At a minimum, the appraisal report must include photographs of the following: • the kitchen; • all bathrooms; • main living areas of the property (such as living room, family room, dining room, all bedrooms, etc.); • basement, including all finished and unfinished rooms; • examples of physical deterioration, if present; and • examples of recent updates, such as restoration, remodeling, and renovation, if present. **Note**: Interior photographs on proposed or under construction properties may be taken at the time of the completion inspection and included with Form 1004D.
Appraisal Update and/or Completion Report (Form 1004D)	At a minimum, when completing the Appraisal Update portion of the report, a photograph of the front of the subject property must be included.
Single-Family Comparable Rent Schedule (Form 1007)	Required if the property is a one-unit investment property and the borrower is using rental income to qualify. Otherwise, Form 1007 is not required. (The lender may obtain this form for the purpose of reporting gross monthly rent at delivery. See *Reporting of Gross Monthly Rent* in B3-3.1-08, Rental Income.)

Appraiser Certifications and Limiting Conditions

Each Fannie Mae appraisal report form includes an appraiser's certification (and, if applicable, a supervisory appraiser's certification) and a statement of assumptions and limiting conditions. Appraisers may not add limiting conditions.

The appraiser may not make changes or deletions to the existing certifications; however, the appraiser may make additional certifications that can be included on a separate page or form. Acceptable additional certifications might include:

- those required by state law;
- those related to the appraiser's continuing education or membership in an appraisal organization; or
- those related to the appraiser's compliance with privacy laws and regulations in the development, reporting, and storage of an appraisal and the information on which it is based.

Lenders are responsible for reviewing any additional certifications made by appraisers to ensure that they do not conflict with Fannie Mae's policies or standard certifications on Fannie Mae appraisal forms.

The appraiser's certification #23 is an acknowledgment by the appraiser that certain parties to a mortgage finance transaction that are not the lender/client and/or intended user may rely on the appraisal report. This certification clarifies that such other parties include the borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government-sponsored enterprises, and other secondary market participants.

Fannie Mae will accept the following additional notice or statement when appraisers believe the lender/client is the only intended user:

"The intended user of this appraisal report is the lender/client. The intended use is to evaluate the property that is the subject of this appraisal for a mortgage finance transaction, subject to the stated scope of work, purpose of the appraisal, reporting requirements of this appraisal report form, and definition of market value. No additional intended users are identified by the appraiser."

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2022-09	October 05, 2022
Announcement SEL-2022-03	April 06, 2022
Announcement SEL-2022-01	February 02, 2022
Announcement SEL-2021-11	December 15, 2021
Announcement SEL-2019-06	July 03, 2019
Announcement SEL-2018-06	August 07, 2018
Announcement SEL-2018-05	June 05, 2018

B4-1.2-02, Desktop Appraisals (12/14/2022)

Introduction

This topic contains information on desktop appraisals, including:

- Overview
- Completing the Form 1004 Desktop
- Eligible Transactions
- Ineligible Transactions
- Representations and Warranties

Overview

A desktop appraisal reported on the *Uniform Residential Appraisal Report (Desktop)* (Form 1004 Desktop) is permitted for certain transactions. The minimum scope of work for Form 1004 Desktop does not include a current inspection of the subject property or comparable sales by the appraiser; the appraiser relies on data obtained from alternative methods or sources to identify property characteristics and condition.

Completing the Form 1004 Desktop

Subject property information may be obtained from one or more data sources. The appraiser can accept data, photos, floor plans, and other information from a party who has a financial interest in the sale or financing of the property if the appraiser verifies such data from a disinterested source. The appraiser must determine if the information is accurate and reliable to produce a credible report, which includes the features, quality, and condition of the subject property.

Virtual inspection methods (including digital photos or videos) or other technological solutions (such as a machine-generated floor plan) can augment the data and imagery used for a desktop appraisal. Information provided by the homeowner, potential borrower, or a third party can be used to develop the description of the interior and exterior of the improvements. Extraordinary assumption(s) or appraisals made "subject to" verification of the subject property's condition, quality, or physical characteristics are not permitted.

The lender remains responsible for the description of the property, and the accuracy and of all data on the appraisal that pertains to the property. This includes the property's condition and quality ratings. The lender is also responsible for ensuring the property meets the property eligibility requirements in this *Selling Guide*. Lastly, the lender remains responsible for any life-of-loan representations and warranties that may apply to the property or the appraisal.

Exhibits: Form 1004 Desktop requires the same exhibits as traditional appraisals, plus a floor plan. The Square Footage-Method for Calculating: ANSI Z765-2021 standard and exception code (GXX001- in the Additional Features field) is not required for desktop appraisals, but encouraged when feasible. See B4-1.2-01, Appraisal Report Forms and Exhibits for additional information.

Entry of Appraisal Assignment Type: The appraiser must provide the Appraisal Assignment Type and supporting details (located in the Additional Comments section of the appraisal report) as shown in the following table.

Field Labels	Required Entry
Appraisal Assignment Type	"DesktopAppraisal"
Subject Property Data Collection Method	"Other"
Subject Property Data Collection Date	"Null"
Subject Property Data Workforce	"Null"

DU Messaging: For loan casefiles that are eligible for a desktop appraisal option, DU will issue a message informing the lender they can choose to obtain an appraisal reported on Form 1004 Desktop. DU will also issue messages for other appraisal options. The lender may select from any of the options presented, which may include a value acceptance (appraisal waiver), desktop appraisal, or traditional appraisal.

Eligible Transactions

To be eligible for a desktop appraisal, transactions must meet the following criteria:

- one-unit property (including those with an ADU and units in a PUD),
- principal residence,
- purchase transaction (including new construction),
- LTV ratio less than or equal to 90%, and
- DU loan casefile that receives an Approve/Eligible recommendation.

Ineligible Transactions

The following transactions are not eligible for a desktop appraisal:

- two- to four-unit properties;
- condo and co-op units;
- manufactured homes;
- construction-to-permanent loans (single-close and two-close);
- second homes and investment properties;
- all refinances;
- HomeReady, HomeStyle Renovation, and HomeStyle Energy loans;
- Community Seconds with a subsidized sales price;
- Community land trusts, or other properties with resale price restrictions (loan casefiles using the Affordable LTV feature);
- DU loan casefiles that receive an Ineligible recommendation; and

- manually underwritten loans.

Representations and Warranties

When a desktop appraisal is reported on Form 1004 Desktop and submitted through the UCDP, the appraisal will be scored by Collateral Underwriter (CU). All eligible loans with a desktop appraisal that receive a CU risk score of 2.5 or less are eligible for enforcement relief of certain representations and warranties related to the appraisal value of the subject property (see A2-2-06, Representations and Warranties on Property Value for complete requirements and additional information).

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2022-03	April 06, 2022
Announcement SEL-2022-01	February 02, 2022

B4-1.2-03, Hybrid Appraisals (03/01/2023)

Introduction

This topic contains information on hybrid appraisals, including:

- Overview
- Completing the Form 1004 Hybrid
- Eligible Transactions
- Ineligible Transactions
- Representations and Warranties

Overview

A hybrid appraisal reported on the *Uniform Residential Appraisal Report (Hybrid)* (Form 1004 Hybrid) is permitted for certain transactions. The minimum scope of work for Form 1004 Hybrid includes consideration by the appraiser of interior and exterior property data collection by a trained and vetted third party (such as a real estate agent, insurance inspector, appraiser, etc.). The appraiser relies on the data collected (and other sources if needed) to identify property characteristics including condition. The property data collection must comply with Fannie Mae's property data standard and be delivered to the Fannie Mae Property Data API.

Completing the Form 1004 Hybrid

Property data collection and the appraisal report are separate assignments and may be performed by different people. If the appraiser does not perform the data collection, the lender must share the property data collection with the appraiser at the time of engagement. The appraiser will use the data along with other third-party sources to develop the appraisal. The effective date of the hybrid appraisal is the date that the appraiser arrives at their opinion of value.

> **Note:** If the appraiser is engaged as a property data collector and at a later date engaged as an appraiser, this is still considered a hybrid appraisal.

The lender remains responsible for verifying the accuracy of the property description and the completeness of the data including the condition and quality ratings as determined by the appraiser. The lender is also responsible for ensuring the property meets the property eligibility requirements in this *Selling Guide*. Lastly, the lender remains responsible for any life-of-loan representations and warranties that may apply to the property or the appraisal.

Exhibits: Form 1004 Hybrid requires the same exhibits as traditional appraisals with the inclusion of a floor plan conforming to the ANSI standard. See B4-1.2-01, Appraisal Report Forms and Exhibits for additional information on exhibits and B4-1.3-05, Improvements Section of the Appraisal Report for additional information on the ANSI standard.

Entry of Appraisal Assignment Type: The appraiser must provide the Appraisal Assignment Type and supporting details (located in the Additional Comments section of the appraisal report) as shown in the following table.

Field Labels	**Required Entry**
Appraisal Assignment Type	"Hybrid"
Subject Property Data Collection Method	"Physical"
Subject Property Data Collection Date	"YYYY-MM-DD"

Subject Property Data Workforce	"Appraiser" "AppraiserTrainee" "RealEstateAgent" "HomeInspector" "InsInspector" (*Insurance Inspector) "Other"

> **Note:** For the Subject Property Data Collection Date, the appraiser must enter the date that the property data collection was performed. For the Subject Property Data Workforce, the appraiser must enter the Workforce indicated in the property data that is one of the six Required Entry enumerations listed above.

Eligible Transactions

A hybrid appraisal is only permitted when all of these preconditions are met in this sequence:

1. DU determines the loan is eligible for value acceptance + property data.

2. The lender obtains property data and submits it to the API.

3. The property data confirms that the property type is residential and not on the Ineligible Transactions list below.

4. The loan loses eligibility in DU for value acceptance + property data due to a change in qualifying loan characteristics.

5. The lender provides the property data collection to an appraiser to perform a hybrid appraisal assignment.

Ineligible Transactions

The following transactions are not eligible for a hybrid appraisal:

- two- to four-unit properties;
- condo (including detached condos) and co-op units;
- manufactured homes;
- proposed construction;
- construction-to-permanent loans (single-close and two-close);
- HomeStyle Renovation and HomeStyle Energy loans;
- Texas (50)(a)(6) loans;
- community land trusts, or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature;
- transactions where either the purchase price or estimated value provided to DU is $1,000,000 or more;
- transactions using gifts of equity;
- DU loan casefiles that receive an Ineligible recommendation; and
- manually underwritten loans.

Representations and Warranties

When a hybrid appraisal is reported on Form 1004 Hybrid and submitted through the UCDP, the appraisal will be scored by Collateral Underwriter (CU). All eligible loans with a hybrid appraisal receiving a CU risk score of 2.5 or less are eligible for enforcement relief of certain representations and warranties related to the appraisal value of the subject property (see A2-2-06, Representations and Warranties on Property Value for complete requirements and additional information).

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Dates
Announcement SEL-2023-02	March 01, 2023

B4-1.2-04, Appraisal Age and Use Requirements (03/01/2023)

Introduction

This topic contains information about the following:

- Age of Appraisal and Appraisal Update Requirements
- Multiple Appraisals of the Subject Property
- Use of an Appraisal for a Subsequent Transaction

Age of Appraisal and Appraisal Update Requirements

When an appraisal is obtained, the property must be appraised within the 12 months prior to the date of the note and mortgage.

When the effective date of the original appraisal report is more than four months but less than 12 months from the date of the note and mortgage, the appraiser must perform an appraisal update that includes inspecting the exterior of the property and reviewing current market data to determine whether the property has declined in value since the date of the original appraisal report. This policy applies regardless of whether the property was appraised as proposed or existing construction. The appraisal update must occur within four months prior to the date of the note and mortgage.

The original appraiser should complete the appraisal update; however, lenders may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal report and express an opinion about whether the original appraisers opinion of market value was reasonable on the date of the original appraisal report. The lender must note in the file why the original appraiser was not used.

The inspection and results of the appraisal update must be reported on the *Appraisal Update and/or Completion Report (Form 1004D).*

- If the appraiser indicates on the Form 1004D that the property value has declined, then the lender must obtain a new appraisal for the property.
- If the appraiser indicates on the Form 1004D that the property value has *not* declined, then the lender may proceed with the loan in process without requiring any additional fieldwork.

When the effective date of the original appraisal report is more than 12 months from the date of the note and mortgage (with or without an appraisal update) a new appraisal report is required. Except for single-close construction-to-permanent financing loans, these policies apply to all appraisals including those that receive appraisal and value representation and warranty enforcement relief (see B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions).

See B4-1.3-12, Quality Assurance, for information concerning changes to the appraised value. See B2-1.5-02, Loan Eligibility, for information regarding property valuation requirements for mortgage loans sold to Fannie Mae more than four months from the note date.

Desktop Appraisals

When the effective date of the original desktop appraisal report is more than four months from the date of the note and mortgage, a new appraisal is required.

Multiple Appraisals of the Subject Property

If the lender obtains more than one appraisal for a loan due to applicable law, regulation, lender policy, or otherwise, the lender must

- adhere to a policy of selecting the most reliable appraisal rather than the appraisal that states the highest value,
- document the reasons for relying on the appraisal, and
- submit the appraisal selected by the lender through the UCDP prior to delivery.

These requirements also apply if the lender considers an appraisal to be deficient (see B4-1.3-12, Quality Assurance).

Use of an Appraisal for a Subsequent Transaction

Fannie Mae will allow the use of an origination appraisal for a subsequent transaction if the following requirements are met:

- The subsequent transaction may only be a limited cash-out refinance.
- The age of the appraisal report must be less than 12 months from the note date of the subsequent transaction. If the appraisal report is greater than four months from the date of the note and mortgage, then an appraisal update is required. See preceding section, Age of Appraisal and Appraisal Update Requirements, for requirements for completing an appraisal update.
- The lender must ensure that the property has not undergone any significant remodeling, renovation, or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property.
- The borrower and the lender/client must be the same on the original and subsequent transaction.

> **Note**: The appraisal must comply with all other requirements in the Underwriting Property section of the *Selling Guide*.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2022-03	April 06, 2022
Announcement SEL-2022-02	March 02, 2022
Announcement SEL-2021-06	July 07, 2021
Announcement SEL-2018-05	June 05, 2018

B4-1.2-05, Requirements for Verifying Completion and Postponed

Improvements (03/01/2023)

Introduction

This topic contains information on requirements for verifying completion of construction and repairs, and requirements for postponed improvements, including:

Overview

Generally, improvements, alterations, and repairs on the subject property must be complete when the mortgage is sold to Fannie Mae. Lenders must obtain evidence of completion and Fannie Mae allows for a variety of methods depending on the type of valuation method and condition (completion, alteration, or repair) that must be confirmed.

Additionally, in some circumstances, Fannie Mae allows a loan to be sold prior to improvements or repairs being completed if the lender complies with the requirements related to postponed improvements.

Form 1004D and Completion Alternatives

Form 1004D

The *Appraisal Update and/or Completion Report* (Form 1004D) is used to update an appraisal or provide confirmation that the requirements or conditions in an appraisal report have been met (such as completion of construction or repairs).

The appraiser can complete the Completion Report section of Form 1004D based on an on-site visual inspection of the property. The appraiser may also complete the form based on alternative methods, such as virtual inspections, digital photos, site videos, or other technological solutions. All completion documentation must include one or more visually verifiable exhibits. A link to the digital exhibits from within the form is acceptable but must be accessible by Fannie Mae for the life of the loan. These exhibits must be unaltered and able to be authenticated using metadata and the geocode for the subject property.

See B4-1.2-04, Appraisal Age and Use Requirements, for certifications completed by substitute appraisers.

Attestation Letters

Fannie Mae also permits other completion alternative methods - attestation letters - to verify completion of construction, alteration, or repairs in lieu of Form 1004D.

Borrower/builder attestation letter: For new or proposed construction, a letter is permitted to confirm the property was completed and constructed in conformity with the plans and specifications, amendments, and change orders. The borrower/builder attestation letter must include (at a minimum) the following items:

- borrower name,
- property address or legal description if the address is not available,
- certification language that the property was constructed in conformity with the plans and specifications including any amendments or changes,
- signatures and dates by the borrower(s) and builder, and
- exterior and interior photos of the property (see B4-1.2-01, Appraisal Report Forms and Exhibits).

If a letter signed by both parties is not obtainable, then a Form 1004D completed by the appraiser is required.

Borrower attestation letter: A letter is permitted to confirm completion of certain alterations or repairs for existing construction. The letter must include (at a minimum) the following:

- borrower name;
- property address;
- certification language that the alteration or repair was satisfactorily completed;
- signatures and date of the borrower;
- visually verifiable exhibits of the completed work; and
- one of the following
    - signature of the qualified professional,
    - a professionally prepared report, or
    - paid invoices for the alterations or repairs.

When either of these attestation letter options is used, a link within the letter to any digital exhibits is acceptable but must be accessible by Fannie Mae for the life of the loan. These exhibits must be unaltered and able to be authenticated using metadata and the geocode for the subject property. The letter and all documentation must be retained in the loan file.

Criteria for Use of Form 1004D and Completion Alternatives

Use of Form 1004D and completion alternatives varies depending on the type of valuation method and condition (completion, alteration, inspection, or repair) that must be verified.

Appraisals (Any appraisal report form including Hybrid and Desktop)		
Appraisal "Subject to" Condition	**Performer**	**Documentation Options**
New or proposed construction - completion per plans and specifications	Appraiser	Form 1004D with site visit
	Appraiser	Form 1004D with virtual inspection
	Borrower and builder	Borrower/builder attestation letter with supporting evidence
Existing construction - repairs or alterations	Appraiser	Form 1004D with site visit
	Appraiser	Form 1004D with virtual inspection
	Borrower	Borrower attestation letter with supporting evidence

Existing construction - inspections requiring a professionally prepared report	Qualified professional	Professionally prepared inspection report The lender must determine if repairs are required as a result of the inspection, verification per above requirements.
	Property Data Collection	
Condition	**Performer**	**Documentation**
Existing construction - repairs or alterations	Borrower	Borrower attestation letter with supporting evidence
Existing construction - inspection requiring a professionally prepared report	Qualified professional	Professionally prepared inspection report The lender must determine if repairs are required as a result of the inspection, verification per above requirements.

> **Note:** The alternative Form 1004D completion method and attestation letters are not permitted for verifying completion for HomeStyle Renovation transactions.

Verification of Completion: New or Proposed Construction

When the property securing the mortgage is new or proposed construction, the appraisal must be based on either plans and specifications, an existing model home, or other information sufficient to identify the quality and character to accurately report the interior features of the proposed improvements.

Verification of completion of construction is required (in accordance with the requirements above) before sale of the loan to Fannie Mae, unless the lender complies with the postponed improvements policies described below.

Verification of Completion: Existing Construction

Lenders must review the appraisal to ensure that the property does not have minor conditions or deferred maintenance items that affect the safety, soundness, or structural integrity of the subject property. See B4-1.3-06, Property Condition and Quality of Construction of the Improvements, for information concerning property condition and quality of construction ratings.

The tables below provide requirements related to existing properties that have physical deficiencies, minor conditions, or deferred maintenance items that may or may not affect the safety, soundness, or structural integrity of the property.

✓	**Requirements for Existing Construction When There are Minor Conditions or Deferred Maintenance Items that Do Not Affect the Safety, Soundness, or Structural Integrity of the Property**
	When the appraisal shows the existence of minor conditions or deferred maintenance that does not affect the safety, soundness, or structural integrity of the property, these items must be reflected in the appraiser's opinion of value and the appraisal report must be completed "as-is." Items meeting these criteria require the appraiser to report and comment on the effect these items may have on the subject property's value and marketability. The lender will then evaluate and determine if any additional course of action is required to comply with Fannie Mae's safety, soundness, and structural integrity requirements. Minor conditions and deferred maintenance items include, but are not limited to, worn floor finishes or carpet, minor plumbing leaks, holes in window screens, missing handrails, or cracked window glass and are typically due to normal wear and tear. The lender is not required to ensure that the borrower has had these items repaired prior to sale of the loan to Fannie Mae when the appraisal is completed "as-is."
	If there are minor conditions or deferred maintenance items to be remedied or completed after closing, the lender may escrow for these items at its own discretion and still sell the loan to Fannie Mae prior to the release of the escrow as long as the lender can ensure that these items do not affect the safety, soundness, or structural integrity of the property.
	Lenders must ensure the escrow account is a custodial account that satisfies Fannie Mae’s criteria for custodial accounts and depositories as outlines in *Servicing Guide* topic A4-1-02, Establishing Custodial Bank Accounts.
✓	**Requirements for Existing Construction When There are Incomplete Items or Conditions that Affect the Safety, Soundness, or Structural Integrity of the Property**
	When an appraisal is required and there are incomplete items, physical deficiencies, or items affecting the safety, soundness, or structural integrity of the improvements, the appraisal must be "subject to" completion of the specific repairs or alterations. This may include but is not limited to foundation settlement, water seepage, active roof leaks, worn roof shingles, inadequate electrical service or plumbing fixtures, etc. Incomplete items, physical deficiencies, or items affecting safety, soundness, or structural integrity may also be identified through the property data collection process. In all cases, the lender must verify completion before the loan is sold to Fannie Mae. See *Form 1004D and Completion Alternatives* above for the specific requirements.

Postponed Improvements

Fannie Mae allows the sale of a loan before construction or energy improvements are complete if certain requirements are met.

The table below describes requirements related to properties that are new or proposed construction that are not complete when the loan is sold to Fannie Mae.

✓	**Requirements for New or Proposed Construction**
	Loans may be delivered before postponed items are complete; however, the postponed improvements must be completed within 180 days of the date of the note. Acceptable postponed items include items that: • are part of the sales contract (third-party contracts are not permissible); • are postponed for a valid reason, such as inclement weather or a shortage of building materials; and • do not affect the ability to obtain an occupancy permit.
	Completion must be confirmed using Form 1004D or an acceptable completion alternative as described above. All documentation must be retained in the loan file.
	The cost of completing improvements must not represent more than 10% of the "as completed" appraised value of the property.
	Lenders must establish a completion escrow for the postponed improvements, by withholding from the purchase proceeds funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.
	Lenders must ensure the escrow account is a custodial account that satisfies Fannie Mae's criteria for custodial accounts and depositories as outlined in *Servicing Guide* topic A4-1-02, Establishing Custodial Bank Accounts.
	Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed.
	The completion escrow may not adversely affect the mortgage insurance or title insurance.
	After a satisfactory Form 1004D or completion alternative is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items.

✓	Requirements for New or Proposed Construction
	Lenders must obtain a final title report, which must not show any outstanding mechanic's liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of Fannie Mae's lien.

Requirements for HomeStyle Energy Improvements on Existing Construction

The table below provides the postponed improvement requirements for a HomeStyle Energy loan. (These requirements are not applicable when energy improvements are included in HomeStyle Renovation loan).

✓	Requirements for HomeStyle Energy Improvements on Existing Construction
	Mortgages may be delivered before the energy-related improvements are complete; however, the postponed improvements must be completed within 180 days of the date of the mortgage note. Acceptable postponed items include items that will not prevent the issuance of an occupancy permit.
	A certification of completion must be obtained to verify the work was completed and must: • be completed by the appraiser, • state that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and • be accompanied by photographs of the completed improvements.
	Lenders must establish a completion escrow for the postponed energy-related improvements by withholding funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.
	Lender must ensure the escrow account is a custodial account that satisfies Fannie Mae's criteria for custodial accounts and depositories as outlined in *Servicing Guide* topic A4-1-02, Establishing Custodial Bank Accounts.
	Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed.
	The completion escrow may not adversely affect the mortgage insurance or title insurance.

✓	Requirements for HomeStyle Energy Improvements on Existing Construction
	Once a certificate of completion is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items. Any funds remaining in the escrow account after the work is completed must be applied to reduce the unpaid principal balance of the mortgage loan. The value of sweat equity and "Do It Yourself" improvements are not reimbursable.
	Lenders must obtain a final title report, which must not show any outstanding mechanic's liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of Fannie Mae's lien.

See B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties, for other requirements related to loans with energy-related improvement features.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2019-01	February 06, 2019
Announcement SEL-2018-02	February 27, 2018

Section B4-1.3, Appraisal Report Assessment

B4-1.3-01, Review of the Appraisal Report (10/31/2017)

Introduction

This topic contains information on reviewing the appraisal report, including:

- Overview
- Appraisal Report Analysis

Overview

Fannie Mae's appraisal report forms and the appraisal review requirements for one- to four-unit properties have been developed with the intent that the USPAP standards are followed and that Fannie Mae's policies are supportive of fair lending practices. This topic provides lender requirements related to the transaction details and the property and appraisal eligibility analysis.

Appraisal Report Analysis

When an appraisal is obtained, the lender must analyze the

- current contract for sale for purchase money transactions,
- current offering or listing for sale for both purchase and refinance transactions when the home was listed for sale,
- comparable sales for both purchase and refinance transactions, and
- current ownership for the subject property (see B4-1.1-02, Lender Responsibilities, for further information).

The lender is responsible for validating that

- the property meets Fannie Mae's eligibility criteria (see B2-3-01, General Property Eligibility, for eligibility requirements); and
- the appraiser has provided an accurate and reliable opinion of value that reflects the market value, condition, and marketability of the subject property in compliance with Fannie Mae's *Selling Guide* requirements. (See B4-1.3-12, Quality Assurance, for further information).

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B4-1.3-02, Subject and Contract Sections of the Appraisal Report (04/15/2014)

Introduction

This topic contains information on reviewing the Subject and Contract sections of the appraisal report form, including:

- Subject Section
- Contract Section

Subject Section

The appraiser must identify the subject property by its complete property address and legal description. The appraiser must enter the physical property address, including the unit number for a condo, in a format that conforms to the United States Postal Service (USPS) address standards in Publication 28 – Postal Addressing Standards (pub28) for complete addresses. Address standards can be found at usps.com. The subject address must be populated consistently throughout the form.

When the legal description is lengthy, the appraiser may attach the full legal description as an addendum to the appraisal report. The appraiser must also identify the property rights to be appraised. (For eligibility requirements, see B2-3-01, General Property Eligibility.)

Fannie Mae's appraisal report forms require the appraiser to research and identify whether the subject property is currently for sale or if it has been offered for sale in the 12 months prior to the effective date of the appraisal by selecting either the ‘Yes’ or the ‘No’ checkbox. If the answer is ‘No,’ the data source(s) used must be provided. If the answer is ‘Yes,’ the appraiser must report on each occurrence or listing and provide the following information:

- offering price(s),
- offering date(s), and
- data source(s) used.

For example, if the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report on both offerings.

> **Note**: For appraisals required to be UAD compliant, Days on Market (DOM) must be reported.

See *Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements*, and the associated FAQ’s, for additional information and examples regarding these topics.

Contract Section

The lender must provide the appraiser with a copy of the complete, ratified contract. The appraiser must indicate whether an analysis was or was not performed on the contract for sale. If an analysis was performed, the appraiser must provide the results of the analysis. If an analysis was not performed, the appraiser must provide an explanation why the analysis was not performed.

For appraisals required to be UAD compliant, the appraiser must also indicate the type of sale for the transaction. The appraiser may report any other relevant information in this field or elsewhere in the report regarding the sale type, including whether more than one sale type applies.

The appraiser must

- enter an amount in the Contract Price field if the Assignment Type is a purchase transaction. Contract price must be the same as the sales price for the subject property in the Sales Comparison Approach section;
- enter a contract date if the Assignment Type is a purchase transaction; and
- indicate if the property seller is the owner of record.

The appraiser must indicate if there is any financial assistance such as loan charges, sales concessions or gift, or down payment assistance to be paid by any party on behalf of the borrower, including any closing costs or other payments from the seller or other third party. If there is financial assistance, the appraiser must

- report the total dollar amount of the loan charges or concessions that will be paid (if the appraiser is not able to determine a dollar amount for all or part of the financial assistance, the number must reflect the total known dollar amount); and
- provide a description of the items being paid.

> **Note**: Financial assistance or concessions paid by any party on behalf of the borrower includes both monetary and non-monetary items, including below-market-rate mortgage financing, gifts of personal property, and payment of property taxes or HOA dues for a period of time.

See *Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements*, for additional information regarding the Contract Section, and B4-1.3-09, Adjustments to Comparable Sales, for additional information regarding evaluating sales or financing concessions for comparables.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B4-1.3-03, Neighborhood Section of the Appraisal Report (06/03/2020)

Introduction

This topic contains information on reviewing the Neighborhood section of the appraisal report form, including:

Overview

Neighborhood characteristics and trends influence the value of one- to four-unit residences. Therefore, an analysis of the subject property’s neighborhood is a key element in the appraisal process. As a reminder, Fannie Mae purchases mortgages secured by properties in all neighborhoods and in all areas, as long as the property is acceptable as security for the mortgage based on its value and marketability.

Neighborhood Analysis

Fannie Mae’s appraisal report forms and guidelines do not require the appraiser to rate or judge the neighborhood. Fannie Mae requires the appraiser to perform an objective neighborhood analysis by identifying neighborhood boundaries, neighborhood characteristics, and the factors that affect the value and marketability of properties in the neighborhood.

- **Neighborhood boundaries**. The appraiser should provide an outline of the neighborhood boundaries, which should be clearly delineated using ‘North’, ‘South’, ‘East’, and ‘West’. These boundaries may include, but are not limited to streets, legally recognized neighborhood boundaries, waterways, or other natural boundaries that define the separation of one neighborhood from another. Appraisers should not reference a map or other addendum as the only example of the neighborhood boundaries.
- **Neighborhood characteristics**. These can be addressed by the types of structures (detached, attached) and architectural styles in the neighborhood (such as row or townhouse, colonial, ranch, or Victorian); current land use (such as single-family residential, commercial, or industrial); typical site size (such as 10000 sf, or 2.00 ac); or street patterns or design (such as one-way street, cul-de-sac, or court).
- **Factors that affect the value and marketability of properties in the neighborhood**. These can be addressed by such things as the proximity of the property to employment and amenities, employment stability, appeal to the market, changes in land use, access to public transportation, and adverse

environmental influences.

The appraiser must fully consider all of the value-influencing characteristics in the neighborhood and arrive at an appropriate neighborhood description and opinion of value for the property, even if this requires more extensive research for particular property types or for properties in certain geographic locations.

An appraiser must perform a neighborhood analysis in order to identify the area that is subject to the same influences as the property being appraised, based on the actions of typical buyers. The results of a neighborhood analysis enable the appraiser not only to identify the factors that influence the value of properties in the neighborhood, but also to define the area from which to select the market data needed to perform a sales comparison analysis.

In performing a neighborhood analysis, the appraiser

- collects pertinent data,
- conducts a visual inspection of the neighborhood to observe its physical characteristics and determine its boundaries, and
- identifies land uses and any signs that the land uses are changing.

Fannie Mae expects the appraiser and the lender’s underwriter to be aware of the varying conditions that characterize different types of neighborhoods. Conditions that are typical in certain neighborhoods may not be present in other neighborhoods. This does not mean that the existence of certain types of conditions or characteristics are unacceptable; rather, it is an indication that they must be viewed in context with the nature of the neighborhood in which the security property is located. For example, some neighborhoods consist of a variety of property types that have different uses. It is not uncommon to find properties that have mixed-uses, such as residential properties that also have child-care facilities, doctor or dental offices, and other types of business or commercial uses. The presence of mixed-use properties or a variety of property types within a neighborhood should be viewed as a neighborhood characteristic that the appraiser considers when performing the neighborhood analysis and describing the neighborhood boundaries.

The appraiser must consider the influence of market forces, including but not limited to, economic, governmental, and environmental factors on property values in the neighborhood. Economic forces that must be considered include such things as the existence of vacant or boarded-up properties in the neighborhood, and the level of essential local support services. Examples of governmental forces that should be taken into consideration include the regulations, laws, and taxes that are imposed on properties. Environmental forces that must be considered include, among other things, the existence of a hazardous waste site on or near the property, and the proximity of a property to an airport. Certain other factors that are not appraisal factors, such as the racial or ethnic composition of a neighborhood or the age or sex of the individuals who live in a particular neighborhood, must not be considered in the valuation process.

The appraiser must determine, analyze, and consider factors in the valuation process based on their identification of all forces or factors that have the potential to influence the value of the property. The appraiser must report neighborhood conditions in factual, specific terms and be impartial and specific in describing favorable or unfavorable factors in a neighborhood. If an appraiser can demonstrate by market evidence that a characteristic has an effect on the value or marketability of the properties in the neighborhood, they must consider it in the valuation process. The appraiser must not make unsupported assumptions or interject personal opinion or perceptions about market forces or other factors that may or may not affect the use and value of a property. For example, a property located in an older neighborhood can be as sound an investment as a property located in a new neighborhood.

Degree of Development and Growth Rate

The degree of development of a neighborhood, which is referred to as “built-up” on the appraisal report forms, is the percentage of the available land in the neighborhood that has been improved. The degree of development of a neighborhood may indicate whether a particular property is residential in nature.

When reviewing an appraisal on a property located in a rural or relatively undeveloped area, the lender should focus on the characteristics of the property, zoning, and the present land use to determine whether the property should be considered residential in nature. For example, if the typical one-unit building site in a particular area (based on the zoning, the highest and best use of the land, and the present land use) is two acres in size, the mortgage will be eligible for purchase or securitization regardless of the percentage of the total appraised value of the property that the site represents, as long as the appraiser demonstrates through the use of comparable sales that the property is a typical residential property for that particular neighborhood.

Because Fannie Mae does not purchase or securitize mortgages secured by agricultural-type properties, undeveloped land, or land-development-type properties, the lender must review the appraisal report for properties that have sites larger than those typical for residential properties in the neighborhood. Special attention must be given to the appraiser’s description of the neighborhood, zoning, the highest and best use determination, and the degree of comparability between the subject property and the comparable sales. If the subject property has a significantly larger site than the comparables used in the appraiser’s analysis, the subject property may not be a typical residential property for the neighborhood.

Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time

The appraiser must report the primary indicators of market condition for properties in the subject neighborhood as of the effective date of the appraisal by noting the information in the table below.

Trend of Property Values	Supply of Properties in the Subject Neighborhood	Marketing Time for Properties
• increasing, • stable, or • declining.	• shortage, • in-balance, or • over-supply.	• under three months, • three to six months, or • over six months.

The appraiser’s analysis of a property must take into consideration all factors that affect value. Because Fannie Mae purchases mortgages in all markets, this is particularly important for neighborhoods that are experiencing significant fluctuations in property values including sub-markets for particular types of housing within the neighborhood. Therefore, lenders must confirm that the appraiser analyzes listings and contract sales as well as closed or settled sales, and uses the most recent and similar sales available as part of the sales comparison approach, with particular attention to sales or financing concessions in neighborhoods that are experiencing either declining property values, an over-supply of properties, or marketing times over six months. The appraiser must provide their conclusions for the reasons a neighborhood is experiencing declining property values, an over-supply of properties, or marketing times over six months.

When completing the One-Unit Housing Trends portion of the Neighborhood section of the appraisal report forms, the trends must be reflective of those properties deemed to be competitive to the property being appraised. If the neighborhood contains properties that are truly competitive (that is, market participants make no distinction between the properties), then all the properties within the neighborhood would be reflected in the One-Unit Housing Trends section. However, when a segmented or bifurcated market is present, the One-Unit Housing Trends portion must reflect those properties from the same segment of the market as the property being appraised. This ensures that the analysis being performed is based on competitive properties. For example, if the neighborhood contains a mix of property types not considered competitive by market participants, then a segmented or bifurcated market is present. The appraiser should also provide commentary on the other segment(s) of the neighborhood when segmentation is present.

Price Range and Predominant Price

The appraiser must indicate the price range and predominant price of properties in the subject neighborhood. The price range must reflect high and low prevailing prices for one-unit properties, two- to four-unit properties, condo units, or co-op units depending on the property type being appraised and the appraisal form being used. Isolated high and low extremes should be excluded from the range, which means that the predominant price will be that which is the most common or most frequently found in the neighborhood. The appraiser must state the predominant price as a single figure using whole numbers.

Over-Improvements

An over-improvement is an improvement that is larger or costlier than what is typical for the neighborhood. For example, a 4,000 square foot home located in an area of homes where the typical home is 2,000 square feet may be considered an over-improvement. Furthermore, a home with an in ground pool in an area where pools are not typical may also be considered an over-improvement. The appraiser must comment on over-improvements and indicate their contributory value in the Sales Comparison Approach adjustment grid.

Improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range, such as a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements.

The fact that the property is an over-improvement does not necessarily make the property ineligible. However, lenders must review appraisals on properties with over-improvements that may not be acceptable to the typical purchaser to ensure that only the contributory value of the over-improvement is reflected in the appraisal analysis.

Age Range and Predominant Age

The appraiser must indicate the age range and predominant age of properties in the subject neighborhood. The age range should reflect the oldest and newest ages for one-unit properties, two- to four-unit properties, condo units, or co-op units depending on the property type and the appraisal form being used. However, isolated high and low extremes should be excluded from the range. The predominant age is the one that is the most common or most frequently found in the neighborhood. The appraiser must state the predominant age as a single figure using whole numbers.

When the age of the subject property is significantly different than the predominant age range, the appraiser must explain why the age is outside the range and comment on the marketability of the property and the adjustments that were made in the Sales Comparison Approach adjustment grid to reflect that condition.

Present Land Use

Fannie Mae's appraisal report forms provide an area for the appraiser to report the relative percentages of the developed land in the neighborhood when discussing the present land use, rather than simply referring to the zoning classifications. The appraiser must separately report the percentage of developed one-unit sites and two- to four-unit sites. Undeveloped land must be reported in the "Other" field. In addition, if there is a significant amount of undeveloped land in the neighborhood, the appraiser must include comments to confirm that they adequately described the neighborhood. If the present land use in the neighborhood is not one of those listed on the appraisal report form, such as parkland, the appraiser also must indicate the type of land use and its related percentage. The total of the types of land uses must equal 100%.

Typically, dwellings best maintain their value when they are situated in neighborhoods that consist of other similar dwellings. However, some factors that are typical of a mixed-use neighborhood, such as easy access to employment centers and a high level of community activity, can actually enhance the market value of the property through increased buyer demand. Neighborhoods may frequently reflect a blend of residential and nonresidential land uses.

When different land uses and property types are present in a neighborhood, that fact should be considered a neighborhood characteristic that the appraiser needs to take into consideration when performing the neighborhood analysis and defining the neighborhood boundaries. To confirm that any positive or negative effects of the mixed land uses are reflected in the sales comparison analysis, the appraiser should select comparable sales from within the same neighborhood whenever possible. If this is not possible, the appraiser may need to make neighborhood or location adjustments to the Sales Comparison Approach adjustment grid for any sales that are not subject to the same neighborhood characteristic.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-03	June 03, 2020
Announcement SEL-2018-06	August 07, 2018

B4-1.3-04, Site Section of the Appraisal Report (06/05/2018)

Introduction

This topic contains information on reviewing the Site section of the appraisal report form, including:

Overview

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in the analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.

Site Analysis

The appraisal must include the actual size of the site and not a hypothetical portion of the site for the subject property. For example, the appraiser may not appraise only 5 acres of an unsubdivided 40–acre parcel. The appraised value must reflect the entire 40–acre parcel.

Subject Property Zoning

The appraiser must report the specific zoning class in the appraisal, along with a general statement as to what the zoning permits, such as one- or two-unit, when they indicate a specific zoning such as R-1 or R-2. The appraisal must indicate whether the subject property presents

- a legal conforming use,
- a legal non-conforming (grandfathered) use,
- an illegal use under the zoning regulations, or

- that there is no local zoning.

Fannie Mae only purchases or securitizes mortgage loans on properties if the improvements constitute a legal conforming use of the land. However, Fannie Mae will purchase or securitize a mortgage for a property that constitutes a legal, nonconforming use of the land provided that the appraisal analysis reflects any adverse effect that the nonconforming use has on the value and the marketability of the property. This requirement applies to all property types.

Fannie Mae will not purchase or securitize a mortgage secured by a property that is subject to certain land-use regulations, such as coastal tideland or wetland laws, that create setback lines or other provisions that prevent the reconstruction or maintenance of the property improvements if they are damaged or destroyed. The intent of these types of land-use regulations is to remove existing land uses and to stop land development, including the maintenance or construction of seawalls, within specific setback lines.

For information regarding accessory units that comply or do not comply with zoning, see B4-1.3-05, Improvements Section of the Appraisal Report.

Highest and Best Use

Fannie Mae will only purchase or securitize a mortgage that represents the highest and best use of the site as improved. If the current improvements clearly do not represent the highest and best use of the site as an improved site, it must be indicated on the appraisal report.

The appraiser determines highest and best use of a site as the reasonable and probable use that supports the highest present value on the effective date of the appraisal. For improvements to represent the highest and best use of a site, they must be legally permitted, financially feasible, and physically possible, and must provide more profit than any other use of the site would generate. All of those criteria must be met if the improvements are to be considered as the highest and best use of a site.

The appraiser’s highest and best use analysis of the subject property should consider the property as it is improved. This treatment recognizes that the existing improvements should continue in use until it is financially feasible to remove the dwelling and build a new one, or to renovate the existing dwelling. If the use of comparable sales demonstrates that the improvements are reasonably typical and compatible with market demand for the neighborhood, and the present improvements contribute to the value of the subject property so that its value is greater than the estimated vacant site value, the appraiser should consider the existing use as reasonable and report it as the highest and best use.

Adjoining Properties

The appraiser must consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.

Site Utilities

For mortgage loans to be eligible for purchase or securitization, the utilities of the property must meet community standards. If public sewer and/or water facilities, those that are supplied and regulated by the local government, are not available, community or private well and septic facilities must be available and utilized by the subject property. The owners of the subject property must have the right to access those facilities, which must be viable on an ongoing basis. Private well or septic facilities must be located on the subject site, unless the subject property has the right to access off-site private facilities and there is an adequate, legally binding agreement for access and maintenance.

If there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities, the appraisal must address the effect of the hazards on the value and marketability of the subject property (see B4-1.4-08, Environmental Hazards Appraisal Requirements).

Off-Site Improvements

Off-site improvements include, but are not limited to, streets, alleys, sidewalks, curbs and gutters, and street lights. The subject property should front on a publicly dedicated and maintained street that meets community standards and is generally accepted by area residents. If a property fronts on a street that is not typical of those found in the community, the appraiser must address the effect of that location on the value and marketability of the subject property.

The presence of sidewalks, curbs and gutters, street lights, and alleys depends on local custom. If they are typical in the community, they should be present on the subject site. The appraiser must comment on any adverse conditions and address their effect on the value and marketability of the subject property.

Community-Owned or Privately Maintained Streets

If the property is located on a community-owned or privately-owned and maintained street, an adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:

- responsibility for payment of repairs, including each party’s representative share;
- default remedies in the event a party to the agreement or covenant fails to comply with their obligations; and
- the effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.

> **Note**: If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.

If the property is not located in a state that imposes statutory requirements for maintenance, and either there is no agreement or covenant for maintenance of the street, or an agreement or covenant exists but does not meet the requirements listed above, the lender may still deliver the loan. However, the lender is required to indemnify Fannie Mae (as described in A2-1-03, Indemnification for Losses) against all losses incurred by Fannie Mae as a result of the physical condition of the street or in order to establish and/or retain access to the street.

Special Flood Hazard Areas

Fannie Mae's appraisal report forms provide an area for the appraiser to indicate whether the property is located in a Special Flood Hazard Area that is identified on the Federal Emergency Management Agency's (FEMA) Flood Insurance Rate Maps. The appraiser must also indicate the specific FEMA flood zone and the map number and its effective date. For additional information concerning Fannie Mae's policies on flood insurance, see B7-3-06, Flood Insurance Requirements for All Property Types.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-05	June 05, 2018

B4-1.3-05, Improvements Section of the Appraisal Report (04/06/2022)

Introduction

This topic contains information on reviewing the Improvements section of the appraisal report form, including:

- Overview
- Conformity of Improvements to Neighborhood
- Unique Housing Types
- Actual and Effective Ages
- Remaining Economic Life
- Energy Efficient Improvements
- Layout and Floor Plans
- Gross Living Area
- Gross Building Area
- Accessory Dwelling Units
- Additions without Permits
- Properties with Outbuildings

Overview

The appraisal must provide a clear, detailed, and accurate description of the improvements. The description must be as specific as possible, commenting on such things as needed repairs, additional features, and modernization, and should provide supporting addenda, if necessary. If the subject property has an accessory dwelling unit, the appraisal should describe it.

Conformity of Improvements to Neighborhood

The improvements should conform to the neighborhood in terms of age, type, design, and materials used for their construction. If there is market resistance to a property because its improvements are not compatible with the neighborhood or with the requirements of the competitive market because of adequacy of plumbing, heating, or electrical services; design; quality; size; condition; or any other reason directly related to market demand, the appraiser must address the impact to the value and marketability of the subject property. However, the lender should be aware that many older neighborhoods have favorable heterogeneity in architectural styles, land use, and age of housing. For example, older neighborhoods are especially likely to have been developed through custom building. This variety may be a positive marketing factor.

Unique Housing Types

In the appraisal and appraisal report review processes, special consideration must be given to properties that represent unique housing for the subject neighborhood. Mortgages secured by unique or nontraditional types of housing, including, but not limited to, earth houses, geodesic domes, and log houses, are eligible for delivery to Fannie Mae provided the appraiser has adequate information to develop a reliable opinion of market value. It is not necessary for one or more of the comparable sales to be of the same design and appeal as the property that is being appraised, although appraisal accuracy is enhanced by using comparable sales that are the most similar to the subject property. On a case-by-case basis, both the appraiser and the underwriter must independently determine whether there is sufficient information available to develop a reliable opinion of market value. This will depend on the extent of the differences between the special or unique property and the more traditional types of houses in the neighborhood and the number of such properties that have already been sold in the neighborhood.

When appraising unique properties,

- if the appraiser cannot locate recent comparable sales of the same design and appeal, but is able to determine sound adjustments for the differences between the comparables that are available and the subject property and demonstrate the marketability of the property based on older comparable sales, comparable sales in competing neighborhoods, the existence of similar properties in the market area, and any other reliable market data, the property is acceptable as security for a mortgage deliverable to Fannie Mae;
- if the appraiser is not able to find any evidence of market acceptance, and the characteristics of the property are so significantly different that they cannot establish a reliable opinion of market value, the property is not acceptable as security for a mortgage deliverable to Fannie Mae.

Fannie Mae does not specify minimum size or living area requirements for properties with the exception of manufactured housing (see B4-1.4-01, Factory-Built Housing: Manufactured Housing). There should be comparables of similar size to the subject property to support the general acceptability of a particular property type.

Actual and Effective Ages

Fannie Mae does not place a restriction on the actual age of the dwelling. Older dwellings that meet Fannie Mae's general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject neighborhood.

The relationship between the actual and effective ages of the property is a good indication of its condition. A property that has been well-maintained generally will have an effective age somewhat lower than its actual age. On the other hand, a property that has an effective age higher than its actual age probably has not been well-maintained or may have a particular physical problem. In such cases, the lender should pay particular attention to the condition of the subject property in its review of any appraisal report. When the appraiser makes adjustments for the "Year Built," they must explain the adjustments that were made.

Remaining Economic Life

Fannie Mae does not have any requirements related to the remaining economic life of the property. However, related property deficiencies must be discussed in the sections of the appraisal report that address the improvements analysis and comments on the condition of the property.

Fannie Mae's appraisal report forms are designed to meet the needs of several different user groups; consequently, the report forms address the remaining economic life for the property being appraised. However, appraisers are not required to report this information. If appraisers report this information, lenders do not need to consider remaining economic life because any related property deficiencies will be discussed in the sections of the appraisal report that address the improvements analysis and comments on the condition of the property.

Energy Efficient Improvements

An energy-efficient property is one that uses resource-effective design, materials, building systems, and site orientation to conserve nonrenewable fuels.

Special energy-saving items must be recognized in the appraisal process and noted on the appraisal report form. For example, when completing the appraisal report (Form 1004), special energy-efficient items are to be addressed in the Improvements section in the Additional features field. The nature of these items and their contribution to value will vary throughout the country because of climactic conditions, differences in utility costs, and overall market reaction to the cost of the feature. Some examples of special energy-efficient features may include, but are not limited to, energy efficient ratings or certifications, programmable thermostats, solar photovoltaic systems, solar panels, low-e windows, insulated ducts, and tank-less water heaters.

Appraisers must compare energy-efficient features of the subject property to those of comparable properties in the Sales Comparison Approach adjustment grid. Appraisers may augment the Sales Comparison Approach in evaluating any impact (either positive or negative) to the value of energy efficiency improvements with either the income or cost approach; however, appraisers cannot adjust the value of the property

- on a mechanical dollar-for-dollar basis based on equipment and installation cost, or the discounted present value of expected cost savings of the equipment over the useful life of the equipment; or
- solely based on the cost or income approach. The appraiser must also analyze the market reaction to the

energy efficient feature.

Solar panels that are leased from or owned by a third party under a power purchase agreement or other similar financing arrangement must be considered personal property and not be included in the appraised value of the property. See B2-3-04, Special Property Eligibility Considerations, for additional eligibility requirements for properties with solar panels.

Layout and Floor Plans

Dwellings with unusual layouts and floor plans generally have limited market appeal. A review of the room list and floor plan for the dwelling unit may indicate an unusual layout, such as bedrooms on a level with no bath, or a kitchen on a different level from the dining room. If the appraiser indicates that such inadequacies will result in market resistance to the subject property, they must make appropriate adjustments to reflect this in the overall analysis. However, if market acceptance can be demonstrated through the use of comparable sales with the same inadequacies, no adjustments are required.

Gross Living Area

Appraisers must follow the Square Footage-Method for Calculating: ANSI® Z765-2021 ("ANSI standard") when measuring, calculating and reporting the gross living area and non-gross living areas (basement, additional structures, etc.) of the subject property for most property types. Appraisals requiring interior and exterior inspections must follow this standard; appraisals of this type performed without using this standard will not be acceptable.

> **Note:** The ANSI standard cannot be used to measure apartment-style units in condo or co-op projects; however, it must be used for any non-apartment style dwellings including townhomes, rowhouses, and other detached single-family homes. When measuring apartment-style units in condo, or co-op projects; the appraiser should use interior perimeter measurements. The ANSI standard also does not apply to two- to four-unit properties.

The most common comparison for one-unit properties, including units in PUD, condo, or co-op projects, is above-grade gross living area and below-grade square footage. The appraiser must be consistent when reporting the finished above-grade gross living area, below-grade square footage, and room count. The need for consistency also applies from report to report. For example, when using the same transaction as a comparable sale in multiple reports, the room count and gross living area must not change.

When using sketching or 3D scanning software, the resulting output must also conform to the ANSI standard. See *Exhibits for Appraisals* in B4-1.2-01, Appraisal Report Forms and Exhibits for additional information on sketches and floor plans.

Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area. Fannie Mae considers a level to be below-grade if any portion of it is below-grade, regardless of the quality of its finish or the window area of any room. Therefore, a walk-out basement with finished rooms would not be included in the above-grade room count. Rooms that are not included in the above-grade room count may add substantially to the value of a property, particularly when the quality of the finish is high. For that reason, the appraiser should report the basement or other partially below-grade areas separately and make appropriate adjustments for them on the Basement & Finished Rooms Below-Grade line in the Sales Comparison Approach adjustment grid.

Detached structures with finished square footage must be reported on a different line in the adjustment grid and not included as part of the subject's reported gross living area.

When the subject property has an area that does not meet the ANSI minimum ceiling height requirements, the additional square footage must be reported on an additional line in the adjustment grid and an appropriate market adjustment applied, if warranted. Additionally, the appraiser must provide and explanation in the report for how this area was handled in order to comply with the ANSI standard and also acknowledge any contribution of the additional square footage.

If the appraiser is unable to adhere to the ANSI standard they must enter "GXX001-" at the beginning of the Additional Features field of the appraisal and provide an explanation of why they were not able to comply. For example, the appraiser is performing an appraisal in a state that requires adherence to a different measuring standard. Such loans may still be eligible for purchase by Fannie Mae.

Gross Building Area

The gross building area

- is the total finished area including any interior common areas, such as stairways and hallways of the improvements based on exterior measurements;
- is the most common comparison for two- to four-unit properties;
- must be consistently developed for the subject property and all comparables used in the appraisal;
- must include all finished above-grade and below-grade living areas, counting all interior common areas such as stairways, hallways, storage rooms; and
- cannot count exterior common areas, such as open stairways.

Fannie Mae will accept the use of other comparisons for two- to four-unit properties, such as the total above-grade and below-grade areas discussed in Gross Living Area, provided the appraiser

- explains the reasons they did not use a gross building area comparison, and
- clearly describes the comparisons that were made.

Accessory Dwelling Units

An ADU is generally an additional living area independent of the primary dwelling that may have been added to, created within, or detached from the primary dwelling. The ADU must have basic requirements for living, sleeping, cooking, and bathroom facilities on the same parcel as the primary dwelling. See B2-3-04, Special Property Eligibility Considerations, for complete ADU eligibility requirements.

When reporting the living area of an ADU, it should not be included with the Gross Living Area calculation of the primary dwelling. It should be reported and adjusted for on a separate line in the grid, unless the ADU is contained within or part of the primary dwelling with interior access and above grade. If a standalone structure does not meet the ADU minimum requirements, it should be treated as any other ancillary structure and included as a separate line item in the sales comparison approach then adjusted based on its contributory value to the subject property.

Whether a property is defined as a one-unit property with an ADU or a two- to four-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utility meter(s), a unique postal address, and whether the unit can be legally rented. The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal. When there is an ADU, the appraisal report must include a description of the ADU and analysis of any effect it has on the value or marketability of the subject property. The appraisal report must demonstrate that the improvements are acceptable for the market. An aged settled sale will qualify as a comparable, and an active listing or under contract sale will qualify as a supplemental exhibit to show marketability.

Zoning for an ADU

If it is determined that the property contains an ADU that is not allowed under zoning (where an ADU is not allowed under any circumstance), the property is eligible under the following additional conditions:

- The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
- The illegal use conforms to the subject neighborhood and to the market.
- The property is appraised based upon its current use.
- The appraisal report states that the improvements represent a use that does not comply with zoning ("illegal" use).
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least two comparable sales with the same non-compliant zoning use. Aged settled sale(s) with the same non-compliant zoning use are acceptable if recent sales are not available. At a minimum, the appraisal report must include a total of three settled sales.

See B4-1.3-04, Site Section of the Appraisal Report, for subject property zoning information.

Additions without Permits

If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

Properties with Outbuildings

A lender must give properties with outbuildings special consideration in the appraisal report review to ensure that the property is residential in nature. Descriptions of the outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form.

Type of Outbuilding	Acceptability
Minimal outbuildings, such as small barns or stables, that are of relatively insignificant value in relation to the total appraised value of the subject property.	The appraiser must demonstrate through the use of comparable sales with similar amenities that the improvements are typical of other residential properties in the subject area for which an active, viable residential market exists.
An atypical minimal outbuilding.	The property is acceptable provided the appraiser’s analysis reflects little or no contributory value for it.
Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals.	The presence of the outbuildings may indicate that the property is agricultural in nature. The lender must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings.

Recent Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-03	April 06, 2022
Announcement SEL-2021-11	December 15, 2021
Announcement SEL-2020-05	September 02, 2020
Announcement SEL-2020-04	August 05, 2020

B4-1.3-06, Property Condition and Quality of Construction of the

Improvements (03/01/2023)

Introduction

This topic contains information on property condition and quality of construction, including:

Appraiser Selection of Condition, Quality, and other Characteristic Ratings

The condition and quality ratings must be based on a holistic view of the property and any improvements. When selecting the condition and quality ratings, an appraiser must

- consider all improvements to determine an overall condition and quality rating. The appraiser should select the rating that best reflects the property as a whole and in its entirety.
- describe the subject property as of the effective date of the appraisal on an absolute basis, meaning the property must be rated on its own merits. The rating should not be selected on a relative basis, meaning it is not selected on how the property relates or compares to other properties in the neighborhood. Additionally, the condition and quality ratings for comparable properties must be made on an absolute basis (again, each comparative property on its own merits), not on a relative basis, and reflect the property as of the date of sale of that comparable property.

> **Note**: These requirements also apply to all other ratings or descriptions, including the View and Location.

When an appraiser selects a rating and/or description of the subject property for a sales transaction, the selected rating and/or description must remain the same when reflecting that specific transaction. For example, if a C4 rating is selected for the sale of the subject property, then that property remains a C4 when using that specific sale as a comparable in future reports. The same expectation holds true for ratings and descriptions of comparable sales. When a comparable is used in a subsequent appraisal, the ratings and descriptions of that property should not change from one appraisal to the next when it reflects the same sale transaction.

> **Note**: Properties can have the same rating or description and still require an adjustment. It should be noted that this does not only apply to condition and quality ratings and can apply to other ratings or descriptions as well. For example, all water views may not be equal. In this instance, an adjustment should be made and explained in the Additional Comments section of the form or in an addendum.

Property Condition

Lenders must take the necessary steps to confirm that a property meets Fannie Mae's condition requirements as outlined in this topic.

The table below provides the requirements for property condition.

✓	**Requirements**
	The appraisal report must express an opinion about the condition of the improvements based on the factual data of the improvements analysis.
	Appraisals based on interior and exterior inspections must include complete visual inspections of the accessible areas of the property. **Note**: Appraisers are not responsible for hidden or unapparent conditions.
	Appraisal reports must reflect adverse conditions that were apparent during the inspection or discovered while performing research, such as, but not limited to, needed repairs, deterioration, or the presence of hazardous wastes, toxic substances, or adverse environmental conditions.
	Detrimental conditions of the improvements must be reported in the appraisal even if the conditions are typical for competing properties.
	The appraiser must consider and describe the overall condition and quality and condition of the property improvements. (See *Identifying Property Condition; Definitions of Not Updated, Updated, and Remodeled*; and *Identifying Quality of Construction* in this topic for details.)
	The appraiser must identify • items that require immediate repair; and • items where maintenance may have been deferred, which may or may not require immediate repair.
	The appraisal Additional Comments section must address needed repairs and physical, functional, or external inadequacies.

Property Condition Ratings

For appraisals required to be completed with the UAD, the appraiser must assign one of the following standardized condition ratings in the table below when identifying the condition of the improvements for the subject property and comparable sales.

Rating	Description
C1	The improvements have been very recently constructed and have not previously been occupied. The entire structure and all components are new and the dwelling features no physical depreciation. **Note**: *Newly constructed improvements that feature recycled materials and/or components can be considered new dwellings provided that the dwelling is placed on a 100 percent new foundation and the recycled materials and the recycled components have been rehabilitated/re-manufactured into like-new condition. Improvements that have not been previously occupied are not considered "new" if they have any significant physical depreciation (that is, newly constructed dwellings that have been vacant for an extended period of time without adequate maintenance or upkeep).*
C2	The improvements feature no deferred maintenance, little or no physical depreciation, and require no repairs. Virtually all building components are new or have been recently repaired, refinished, or rehabilitated. All outdated components and finishes have been updated and/or replaced with components that meet current standards. Dwellings in this category either are almost new or have been recently completely renovated and are similar in condition to new construction. **Note**: *The improvements represent a relatively new property that is well-maintained with no deferred maintenance and little or no physical depreciation, or an older property that has been recently completely renovated.*
C3	The improvements are well-maintained and feature limited physical depreciation due to normal wear and tear. Some components, but not every major building component, may be updated or recently rehabilitated. The structure has been well-maintained. **Note**: *The improvement is in its first-cycle of replacing short-lived building components (appliances, floor coverings, HVAC, etc.) and is being well– maintained. Its estimated effective age is less than its actual age. It also may reflect a property in which the majority of short-lived building components have been replaced but not to the level of a complete renovation.*

Rating	Description
C4	The improvements feature some minor deferred maintenance and physical deterioration due to normal wear and tear. The dwelling has been adequately maintained and requires only minimal repairs to building components/mechanical systems and cosmetic repairs. All major building components have been adequately maintained and are functionally adequate. **Note**: *The estimated effective age may be close to or equal to its actual age. It reflects a property in which some of the short-lived building components have been replaced, and some short-lived building components are at or near the end of their physical life expectancy; however, they still function adequately. Most minor repairs have been addressed on an ongoing basis resulting in an adequately maintained property.*
C5	The improvements feature obvious deferred maintenance and are in need of some significant repairs. Some building components need repairs, rehabilitation, or updating. The functional utility and overall livability are somewhat diminished due to condition, but the dwelling remains useable and functional as a residence. **Note**: *Some significant repairs are needed to the improvements due to the lack of adequate maintenance. It reflects a property in which many of its short-lived building components are at the end of or have exceeded their physical life expectancy, but remain functional.*
C6	The improvements have substantial damage or deferred maintenance with deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements. The improvements are in need of substantial repairs and rehabilitation, including many or most major components. **Note**: *Substantial repairs are needed to the improvements due to the lack of adequate maintenance or property damage. It reflects a property with conditions severe enough to affect the safety, soundness, or structural integrity of the improvements.*

Identifying Property Condition

As previously noted, the condition rating selected for the property must reflect a holistic view of the condition of the property improvements. It would be inappropriate to select either a lower or higher overall rating on the basis of one or two minor inferior or superior areas of the property improvements. However, the C6 rating is an exception because it indicates that the property is impacted by one or more deficiencies that negatively affect the safety, soundness, or structural integrity of the property. As a result, if any portion of the dwelling is rated a C6, the whole dwelling must be rated a C6.

Properties with a condition rating of C6 are not eligible for sale to Fannie Mae. Any deficiencies impacting the safety, soundness, or structural integrity of the property must be repaired with a resulting minimum condition rating of C5 prior to delivery of the loan. See *Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property* in this topic for information related to completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

Definitions of Not Updated, Updated, and Remodeled

For appraisals required to be completed using the UAD, as a subset of identifying the condition of the subject property, the appraiser must also identify the level of updating, if any, that the subject property has received by utilizing the definitions in the table below.

Level of Updating	**Description**
Not Updated	Little or no updating or modernization. This description includes, but is not limited to, new homes. Residential properties of fifteen years of age or less often reflect an original condition with no updating, if no major components have been replaced or updated. Those over fifteen years of age are also considered not updated if the appliances, fixtures, and finishes are predominantly dated. An area that is ‘Not Updated’ may still be well-maintained and fully functional, and this rating does not necessarily imply deferred maintenance or physical/functional deterioration.
Updated	The area of the home has been modified to meet current market expectations. These modifications are limited in terms of both scope and cost. An updated area of the home should have an improved look and feel, or functional utility. Changes that constitute updates include refurbishment and/or replacing components to meet existing market expectations. Updates do *not* include significant alterations to the existing structure.
Remodeled	Significant finish and/or structural changes have been made that increase utility and appeal through complete replacement and/or expansion. A remodeled area reflects fundamental changes that include multiple alterations. These alterations may include some or all of the following: replacement of a major component (cabinet(s), bathtub, or bathroom tile), relocation of plumbing/gas fixtures/appliances, significant structural alterations (relocating walls, and/or the addition of square footage). This would include a complete gutting and rebuild.

Appraisals Completed “As Is”

Fannie Mae permits appraisals to be based on the “as is” condition of the property provided existing conditions are minor and do not affect the safety, soundness, or structural integrity of the property, and the appraiser’s opinion of value reflects the existence of these conditions.

Minor conditions and deferred maintenance are typically due to normal wear and tear from the aging process and the occupancy of the property. While such conditions generally do not rise to the level of a required repair, they must be reported. Examples of minor conditions and deferred maintenance include worn floor finishes or carpet, minor plumbing leaks, holes in window screens, missing handrails, or cracked window glass.

Properties with condition ratings C1, C2, C3, C4, and C5 as previously defined are eligible in “as is” condition. Properties with the initial Condition Rating C6 indicate one or more deficiencies that impact the safety, soundness, or structural integrity of the property. Therefore, the appraisal must be completed "subject to" completion of the deficient item(s) with a minimum resulting condition rating of C5.

See *Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property* in this topic for additional details when completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

Quality of Construction Rating

For appraisals required to be completed using the UAD, the appraiser must assign one of the following standardized quality ratings in the table below when identifying the quality of construction for the subject property and comparable sales.

Rating	Description
Q1	Dwellings with this quality rating are usually unique structures that are individually designed by an architect for a specified user. Such residences typically are constructed from detailed architectural plans and specifications and feature an exceptionally high level of workmanship and exceptionally high-grade materials throughout the interior and exterior of the structure. The design features exceptionally high-quality exterior refinements and ornamentation, and exceptionally high-quality interior refinements. The workmanship, materials, and finishes throughout the dwelling are of exceptionally high quality.
Q2	Dwellings with this quality rating are often custom designed for construction on an individual property owner’s site. However, dwellings in this quality grade are also found in high-quality tract developments featuring residences constructed from individual plans or from highly modified or upgraded plans. The design features detailed, high-quality exterior ornamentation, high-quality interior refinements, and detail. The workmanship, materials, and finishes throughout the dwelling are generally of high or very high quality.
Q3	Dwellings with this quality rating are residences of higher quality built from individual or readily available designer plans in above-standard residential tract developments or on an individual property owner’s site. The design includes significant exterior ornamentation and interiors that are well finished. The workmanship exceeds acceptable standards and many materials and finishes throughout the dwelling have been upgraded from “stock” standards.

Rating	Description
Q4	Dwellings with this quality rating meet or exceed the requirements of applicable building codes. Standard or modified standard building plans are utilized and the design includes adequate fenestration and some exterior ornamentation and interior refinements. Materials, workmanship, finish, and equipment are of stock or builder grade and may feature some upgrades.
Q5	Dwellings with this quality rating feature economy of construction and basic functionality as main considerations. Such dwellings feature a plain design using readily available or basic floor plans featuring minimal fenestration and basic finishes with minimal exterior ornamentation and limited interior detail. These dwellings meet minimum building codes and are constructed with inexpensive, stock materials with limited refinements and upgrades.
Q6	Dwellings with this quality rating are of basic quality and lower cost; some may not be suitable for year-round occupancy. Such dwellings are often built with simple plans or without plans, often utilizing the lowest quality building materials. Such dwellings are often built or expanded by persons who are professionally unskilled or possess only minimal construction skills. Electrical, plumbing, and other mechanical systems and equipment may be minimal or nonexistent. Older dwellings may feature one or more substandard or nonconforming additions to the original structure.

Identifying Quality of Construction

The same approach used in identifying the condition of the property is also applicable to identifying the quality of construction. The selected rating must reflect a holistic view of the quality of construction. However, the Q6 Rating is an exception because it indicates that the property is impacted by one or more deficiencies that negatively affect the safety, soundness, or structural integrity of the property. As a result, if any portion of the dwelling is rated a Q6, the whole dwelling must be rated a Q6.

Properties with a quality of construction rating of Q6 are eligible for sale to Fannie Mae provided any items in relation to the quality of construction that impact the safety, soundness, or structural integrity of the property are repaired prior to the delivery of the loan. See Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property in this topic for requirements when completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property

The appraisal report must identify and describe physical deficiencies that could affect a property’s safety, soundness, or structural integrity. If the appraiser has identified any of these deficiencies, the property must be appraised "subject to" completion of the specific repairs or alterations. In these instances, the property condition and quality ratings must reflect the condition and quality of the property based on the hypothetical condition that the repairs or alterations have been completed.

If the appraiser is not qualified to evaluate the alterations or repairs, the appraisal must note the deficiencies and be completed "subject to" a satisfactory inspection by a qualified professional. The lender must decide if the inspection(s) is required and whether the property meets eligibility requirements. If the property does not meet eligibility requirements, the lender must provide satisfactory evidence that the condition has been corrected or repaired prior to loan delivery. In this case, the appraiser is not required to review the professionally prepared report, re-inspect the property, or provide a Form 1004D. The lender must document the decision and rationale in the loan file. See B4-1.4-08, Environmental Hazards Appraisal Requirements, for properties affected by environmental hazards.

Infestation, Dampness, or Settlement

If the appraisal indicates evidence of infestation (such as, wood-boring insects), dampness, or abnormal settlement, the appraisal must comment on the effect on the value and marketability of the subject property. The lender must either provide satisfactory evidence that the condition was corrected or submit a professionally prepared report indicating, based on an inspection of the property, that the condition does not pose any threat of structural damage to the improvements. The appraisal should be made "subject to" repairs or alternations, or "subject to" an inspection by a qualified professional.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023

B4-1.3-07, Sales Comparison Approach Section of the Appraisal Report (04/15/2014)

Introduction

This topic contains information on reviewing the Sales Comparison Approach section of the appraisal report form, including:

Overview

The sales comparison approach to value is an analysis of comparable sales, contract sales, and listings of properties that are the most comparable to the subject property.

The appraiser's analysis of a property must take into consideration all factors that have an effect on value. The appraiser must analyze all closed sales, contract sales, and offerings or listings of properties that are the most comparable to the subject property in order to identify any significant differences or elements of comparison that could affect their opinion of value for the subject property as of the effective date of the appraisal report. This is particularly important in changing (increasing or declining values) markets. Analyzing closed sales, contract sales, and offerings or listings is an important analysis in any market and will result in more accurate reporting on market conditions, including trends that indicate that sale prices for contract sales and asking prices for recent offerings or listings have changed. (Also see B4-1.3-03, Neighborhood Section of the Appraisal Report, for information regarding Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time.)

Data and Verification Sources of Comparable Sales

Data and verification source(s) for each comparable sale must be reported on the appraisal report form. Examples of data sources include, but are not limited to, a multiple listing service, deed records, tax records, real estate agents, builders, appraisers, appraiser's files, and other third party sources and vendors. The appraiser must state the specific data source (such as tax records or deed records), and refrain from using broad categories, such as "public records." Data source(s) must be reliable sources for the area where the subject property is located.

Examples of verification sources include, but are not limited to, the buyer, seller, listing agent, selling agent, and closing documents in certain situations. Regardless of the source(s) used, there must be sufficient data to understand the conditions of sale, existence of financing concessions, physical characteristics of the subject property, and whether it was an arms-length transaction.

It is acceptable to obtain comparable sales data from parties that have a financial interest in either the sale or financing of the subject property; however, the appraiser must verify the data with a party that does not have a financial interest in the subject transaction. For example, if the real estate agent of the subject property has provided comparable sales data, that information must be verified through another disinterested source.

Prior Sales History of the Subject and Comparable Sales

Fannie Mae's appraisal report forms require the appraiser to report the three year subject property and twelve month comparable sales history.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B4-1.3-08, Comparable Sales (03/02/2022)

Introduction

This topic contains information on selection of comparable sales, including:

- Selection of Comparable Sales
- Minimum Number of Comparable Sales
- Age of the Comparable Sales
- Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDS
- Rural Properties
- Use of Foreclosures and Short Sales

Selection of Comparable Sales

The appraiser is responsible for determining which comparables are the best and most appropriate for the assignment. Fannie Mae expects the appraiser to account for all factors that affect value when completing the analysis. Comparable sales should have similar physical and legal characteristics when compared to the subject property. These characteristics include, but are not limited to, site, room count, gross living area, style, and condition. This does not mean that the comparable must be identical to the subject property, but it should be competitive and appeal to the same market participants that would also consider purchasing the subject property. Comparables that are significantly different from the subject property may be acceptable; however, the appraiser must describe the differences, consider these factors in the market value, and provide an explanation justifying the use of the comparable(s).

Comparable sales from within the same neighborhood (including subdivision or project) as the subject property should be used when possible, and must be used in certain instances (see below). Sale activity from within the neighborhood is the best indicator of value as sales prices of comparable properties from the same location should reflect the same positive and negative location characteristics.

Fannie Mae does allow for the use of comparable sales that are located in competing neighborhoods, as these may simply be the best comparables available and the most appropriate for the appraiser’s analysis. If this situation arises, the appraiser must not expand the neighborhood boundaries just to encompass the comparables selected. The appraiser must indicate the comparables are from a competing neighborhood and address any differences that exist. The appraiser must also provide an explanation as to why they used the specific comparable sales in the appraisal report and include a discussion of how a competing neighborhood is comparable to the subject neighborhood.

If a property is located in an area in which there is a shortage of truly comparable sales, either because of the nature of the property improvements or the relatively low number of sales transactions in the neighborhood, the appraiser might need to use properties that are not truly comparable to the subject property. In some situations, sales of properties that are not truly comparable may simply be the best available and the most appropriate for the appraiser's analysis. The use of such sales is acceptable as long as the appraiser adequately documents the analysis and explains why these sales were used. (For additional information, see B4-1.3-03, Neighborhood Section of the Appraisal Report.

When describing the proximity of the comparable sale to the subject property, the appraiser must be specific with respect to the distance in terms of miles and include the applicable directional indicator (for example, "1.75 miles NW"). The distance between the subject property and each comparable property is to be measured using a straight line between the properties.

Minimum Number of Comparable Sales

A minimum of three closed comparables must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listings can be used as supporting data, if appropriate. See *Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDs* below for exceptions to this policy.

In no instance may the appraiser create comparable sales by combining vacant land sales with the contract purchase price of a home (improvements only). While these transactions cannot be used to meet the required minimum three closed comparables, these transactions, which are often completed as part of a construction-to-permanent loan transaction, may be included as additional support with appropriate commentary.

Age of the Comparable Sales

Comparable sales that have closed within the last 12 months should be used in the appraisal; however, the best and most appropriate comparable sales may not always be the most recent sales. For example, it may be appropriate for the appraiser to use a nine month old sale with a time adjustment rather than a one month old sale that requires multiple adjustments. An older sale may be more appropriate in situations when market conditions have impacted the availability of recent sales as long as the appraisal reflects the changing market conditions.

Additionally, older comparable sales that are the best indicator of value for the subject property can be used if appropriate. For example, if the subject property is located in a rural area that has minimal sales activity, the appraiser may not be able to locate 3 truly comparable sales that sold in the last 12 months. In this case, the appraiser may use older comparable sales as long as they explain why they are being used.

Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDS

If the subject property is located in a new (or recently converted) condo project, subdivision, or PUD, it must be compared to other properties in the same market area and to properties within the subject condo project, subdivision, or PUD. This comparison should help demonstrate market acceptance of new developments and the properties within them. Generally, a subdivision is considered new when there are limited or no resales or the builder or developer is involved in the marketing or sale of the properties. See B4-2.1-01, General Information on Project Standards and B4-2.3-01, Eligibility Requirements for Units in PUD Projects for the definition of a new condo project or PUD.

At a minimum, the appraisal report for these properties must include the following:

- At least one settled comparable sale from the subject condo project, subdivision, or PUD. (A resale is preferable if it is verifiable and does not involve the subject builder or developer).
- At least one settled comparable sale from outside the subject condo project, subdivision, or PUD.
- A third settled comparable sale can be from inside or outside of the subject condo project, subdivision, or PUD. Settled comparable sales or resales from within the subject condo project, subdivision, or PUD are preferable to settled sales from outside the condo project, subdivision, or PUD provided the builder or developer of the subject property is not involved in those transactions.
- In the event there are no settled comparable sales inside a new condo project, subdivision, or PUD because the subject property transaction is one of the first units to sell, the appraiser may use two pending sales in the subject project, subdivision, or PUD in lieu of one settled sale. The appraiser must also use at least three settled comparable sales from projects, subdivisions, or PUDs outside of the subject project, subdivision, or PUD.

If the subject property is part of a newly built or recently converted condo project, subdivision, or PUD that has 2-20 units and there are no settled or pending sales, the appraiser may use comparable sales from a competing project, subdivision, or PUD. The requirements in the following table apply.

✓	**The appraisal report must...**
	Use competing projects, subdivisions, or PUDs of a similar size and type.
	Explain why the comparable sales were chosen and demonstrate market acceptance.
	Describe how the condo project, subdivision, or PUD chosen compares to the subject property.

> **Note:** If the subject property is not the first unit under contract in the condo project, subdivision, or PUD, the appraiser must include one under contract sale from the subject's project, subdivision, or PUD as a supplemental exhibit.

To meet the requirement that the appraiser utilize one comparable sale from inside the subject project, subdivision, or PUD, the appraiser may need to rely solely on the builder of the property they are appraising, as this data may not yet be available through typical data sources (for example, public records or multiple listing services). In this scenario, it is acceptable for the appraiser to verify the transaction of the comparable sale by viewing a copy of the settlement statement from the builder’s file.

When providing builder sales from competing projects that are not presently available through traditional data sources, the appraiser must verify the sale from the applicable settlement statement and indicate on the appraisal report that the settlement statement was the document utilized for verification. Additionally, the appraisal must include discussion and analysis of sales concessions and upgrades for the subject property relative to concessions and upgrades for each builder sale. (For special appraisal considerations regarding condo projects, see B4-1.4-03, Condo Appraisal Requirements.)

Rural Properties

Rural properties often have large lot sizes, and rural locations can be relatively undeveloped. Therefore, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. Comparable sales located a considerable distance from the subject property can be used if they represent the best indicator of value for the subject property. In such cases, the appraiser must use their knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value. The appraisal must include an explanation of why the particular comparables were selected.

Use of Foreclosures and Short Sales

It is acceptable to use foreclosures and short sales as comparables if the appraiser believes they are the best and most appropriate sales available. The appraiser must address in the appraisal report the prevalence of such sales in the subject's neighborhood and the impact, if any, of such sales. The appraiser must identify and consider any differences from the subject property, such as the condition of the property and whether any stigma has been associated with it. The appraiser cannot assume it is equal to the subject property. For example, a foreclosure or short sale property may be in worse condition when compared to the subject property, especially if the subject property is new construction or was recently renovated. For appraisals that are required to be UAD compliant, the appraiser must identify the financing sale type as REO sale or Short sale, as appropriate. (For specific information regarding comparable sale adjustments, see B4-1.3-09, Adjustments to Comparable Sales, and for information regarding financing types, see *Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements*.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-02	March 02, 2022
Announcement SEL-2021-11	December 15, 2021
Announcement SEL-2018-08	October 02, 2018

B4-1.3-09, Adjustments to Comparable Sales (01/31/2017)

Introduction

This topic contains details on selected adjustments to the comparable sales, including:

- Analysis of Adjustments
- Sales or Financing Concessions
- Date of Sale and Time Adjustments
- Appraiser's Comments and Indicated Value in the Sales Comparison Approach

Analysis of Adjustments

Fannie Mae does not have specific limitations or guidelines associated with net or gross adjustments. The number and/or amount of the dollar adjustments must not be the sole determinant in the acceptability of a comparable. Ideally, the best and most appropriate comparable would require no adjustment; however this is rarely the case as typically no two properties or transaction details are identical. The appraiser's adjustments must reflect the market's reaction (that is, market based adjustments) to the difference in the properties. For example, it would be inappropriate for an appraiser to provide a $20 per square foot adjustment for the difference in the gross living area based on a rule-of-thumb when market analysis indicates the adjustment should be $100 per square foot. The expectation is for the appraiser to analyze the market for competitive properties and provide appropriate market based adjustments without regard to arbitrary limits on the size of the adjustment.

If the extent of the appraiser's adjustments to the comparable sales is great enough to indicate that the property may not conform to the neighborhood, the underwriter must determine if the opinion of value is adequately supported. (For further information regarding comparable selection, see B4-1.3-08, Comparable Sales.)

When there are no truly comparable sales for a particular property because of the uniqueness of the property or other conditions, the appraiser must select sales that represent the best indicators of value for the subject property and make adjustments to reflect the actions of typical purchasers in that market.

Sales or Financing Concessions

Comparable sales that include sales or financing concessions must be adjusted to reflect the impact, if any, on the sales price of the comparables based on the market at the time of sale. For information related to sales or financing concessions for the subject transaction, see B3-4.1-02, Interested Party Contributions (IPCs).

Examples of sales or financing concessions include:

- interest rate buydowns or other below-market rate financing;
- loan discount points;

- loan origination fees;
- closing costs customarily paid by the buyer;
- payment of condo, co-op, or PUD fees or assessment charges;
- refunds of (or credit for) the borrower's expenses;
- absorption of monthly payments;
- assignment of rent payments; and
- inclusion of non-realty items in the transaction.

The dollar amount of sales or financing concessions paid by the seller must be reported for the comparable sales if the information is reasonably available (see UAD *Appendix D: Field–Specific Standardization Requirements*, for data entry instructions). Sales or financing data should be obtained from parties associated with the comparable transaction, such as the broker, buyer or seller, or a reliable data source. If information is not available because of legal restrictions or other disclosure-related problems, the appraiser must explain why the information is not available. If the appraisal report form does not provide enough space to discuss this information, the appraiser must make an adjustment for the concessions on the form and include an explanation in an addendum to the appraisal report.

The amount of the negative dollar adjustment for each comparable with sales or financing concessions should be equal to any increase in the purchase price of the comparable that the appraiser determines to be attributable to the concessions. The need to make negative dollar adjustments for sales or financing concessions and the amount of the adjustments to the comparable sales is not based on how typical the concessions might be for a segment of the market area. Large sales or financing concessions can be relatively typical in a particular segment of the market and still result in sale prices that reflect more than the value of the real estate. Adjustments based on dollar-for-dollar deductions that are equal to the cost of the concessions to the seller, as a strict cash equivalency approach would dictate, are not appropriate.

Fannie Mae recognizes that the effect of sales or financing concessions on sales prices can vary with the amount of the concessions and differences in various markets. Adjustments must reflect the difference between what the comparables actually sold for with the sales or financing concessions and what they would have sold for without the concessions so that the dollar amount of the adjustments will approximate the reaction of the market to the concessions. If the appraiser's analysis determines that the market's reaction is the full amount of the financing concession, a dollar-for-dollar adjustment is acceptable.

Positive adjustments for sales or financing concessions are not acceptable. For example, if local common practice or law results in virtually all of the property sellers in the market area paying a 1% loan origination fee for the purchaser, and a property seller in that market did not pay any loan fees or concessions for the purchaser, the sale would be considered as a cash equivalent sale in that market. The appraiser must recognize comparable sales that sold for all cash or with cash equivalent financing and use them as comparable sales if they are the best indicators of value for the subject property. Such sales also can be useful to the appraiser in determining those costs that are normally paid by sellers as the result of common practice or law in the market area.

Date of Sale and Time Adjustments

The date of sale and the time adjustment (market conditions) are critical elements in determining an accurate value because the appraisal is based on a specific date in time (effective date of appraisal). The comparable sales being considered must be analyzed by the appraiser to determine if there have been any changes in market conditions from the time the comparable went under contract to the effective date of the appraisal. This analysis will determine whether a time adjustment is warranted. Adjustments may be either positive or negative depending on the market changes over the time period analyzed. Time adjustments should be supported by other comparables (such as sales, contracts) whenever possible; however, in all instances the appraiser must provide an explanation for the time adjustment in the appraisal report.

When completing Fannie Mae's appraisal report forms, the appraiser should provide the date of the sales contract and the settlement or closing date. Only the month and year need to be reported. For example, appraisers may use "s04/10" or "c02/10" where "s" reflects the settlement or closing date and "c" reflects the contract date. If the exact date is necessary to understand the adjustments, it must be explained elsewhere in the report or in an addendum. If the contract date is unavailable to the appraiser in the normal course of business, the appraiser must enter the abbreviation "Unk" for unknown, in place of the contract date.

Appraiser's Comments and Indicated Value in the Sales Comparison Approach

The appraiser must provide appropriate comment(s) reflecting the logic and reasoning for the adjustments provided, especially for the characteristics reported on the appraisal report form between the Sales or Financing Concessions and the Condition line items. A statement only recognizing that an adjustment has been made is not acceptable. When appropriate, the appraiser's analysis should also include narrative comments about a current contract, offering, or listing for the subject or comparable sales, current ownership, and recent prior sales or transfers. Additionally, the appraiser's comments must reflect his or her reconciliation of the adjusted (or indicated) values for the comparable sales and identify why the sale(s) were given the most weight in arriving at the indicated value for the subject property. It should be noted that the indicated value in the Sales Comparison Approach must be within the range of the adjusted sales price of the comparables that are reported in the appraisal report form.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B4-1.3-10, Cost and Income Approach to Value (04/15/2014)

Introduction

This topic contains information on reviewing the cost approach and the income approach, including:

- Cost Approach to Value
- Income Approach to Value

Cost Approach to Value

Fannie Mae does not require the cost approach to value except for the valuation of manufactured homes. However, USPAP requires the appraiser to develop and report the result of any approach to value that is necessary for credible assignment results. For example, when appraising proposed or newly constructed properties, if the appraiser believes the cost approach is necessary for credible assignment results, then the cost approach must be provided. Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

The cost approach to value assumes that a potential purchaser will consider building a substitute residence that has the same use as the property being appraised. This approach, then, measures value as a cost of production. It may be appropriate to use the cost approach when appraising new or proposed construction, property that is undergoing renovation, unique property, or property that features functional depreciation, to support the sales comparison approach analysis. The reliability of the cost approach depends on valid reproduction cost estimates, proper depreciation estimates, and accurate site values.

If the appraiser has completed the cost approach, the lender must thoroughly review the information provided to confirm that the appraiser’s analysis and comments for the cost approach to value are consistent with comments and adjustments mentioned elsewhere in the appraisal report. For example, if the neighborhood or site description reveals that the property backs up to a shopping center, lenders should expect to see an amount indicated for external depreciation in the cost approach. Or, if the improvement analysis indicates that it is necessary to go through one bedroom to get to another bedroom, lenders should expect to see an amount indicated for functional depreciation.

Income Approach to Value

The income approach to value is based on the assumption that market value is related to the market rent or income that a property can be expected to earn. The income approach to value is required in the valuation of two-unit to four-unit properties and may be appropriate in neighborhoods that consist of one-unit properties when there is a substantial rental market. The income approach to value may not be appropriate in areas that consist mostly of owner-occupied properties because adequate rental data does not exist for those areas. However, USPAP requires the appraiser to develop and report the result of any approach to value that is necessary for credible assignment results. If the appraiser believes the income approach is necessary for credible assignment results, then the income approach must be included. Appraisals that rely solely on the income approach as an indicator of market value are not acceptable.

When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data, and the calculations used to determine the gross rent multiplier. If the appraiser has completed the income approach, the lender must thoroughly review the information provided to confirm that the appraiser’s analysis and comments for the income approach are consistent with comments mentioned elsewhere in the report.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B4-1.3-11, Valuation Analysis and Reconciliation (04/15/2014)

Introduction

This topic contains information on reviewing the valuation analysis and final reconciliation, including:

- Overview
- Reconciliation

Overview

The valuation sections of Fannie Mae's appraisal report forms enable an appraiser to develop and report, in a concise format, an adequately supported opinion of market value based on the cost, sales comparison, and income approaches to value, as applicable. If the appraiser believes that additional information needs to be provided because of the uniqueness of the property or some other condition, they should provide additional supporting data in an addendum to the appraisal report form.

Reconciliation

In the Reconciliation section of the appraisal report form, the appraiser considers the reliability and applicability of each of the approaches to value that was utilized in the appraisal report. After consideration of each of the approaches to value, the appraiser will provide their final value opinion. In the Reconciliation section, appraisers must

- reconcile the reasonableness and reliability of each applicable approach to value,
- reconcile the reasonableness and validity of the indicated values,
- reconcile the reasonableness of available data, and
- select and report the approach or approaches that were given the most weight.

The reconciliation is based on the appraiser's judgment of the results developed as part of the valuation process and must never be an averaging technique with the exception of the use of a weighted average technique that includes proper explanation. The final reconciled indicated value must be within the range of the values indicated by the Approaches used in the appraisal report form.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B4-1.3-12, Quality Assurance (06/03/2020)

Introduction

This topic contains information on changes to the appraised value, appraisal deficiencies, and quality assurance, including:

Changes to the Appraised Value

The lender is responsible for confirming that appraisal reports are complete and that any changes to the reports are made by the appraiser that originally completed the report. If the lender has concerns with any aspect of the appraisal that result in questions about the reliability of the opinion of market value, the lender must attempt to resolve its concerns with the appraiser that originally prepared the report. If the lender is unable to resolve its concerns with the appraiser, the lender must obtain a replacement report prior to making a final underwriting decision on the loan. Any request for a change in the opinion of market value must be based on material and substantive issues and must not be made solely on the basis that the opinion of market value as indicated in the appraisal report does not support the proposed loan amount. For information concerning the process lenders must follow to address a change of the opinion of market value, see Guidance on Addressing Appraisal Deficiencies in this topic.

Lenders must pay particular attention and institute extra due diligence for those loans in which the appraised value is believed to be excessive or when the value of the property has experienced significant appreciation in a short time period since the prior sale. Fannie Mae believes that one of the best ways lenders can reduce the risk associated with excessive values or rapid appreciation is by receiving accurate appraisals from knowledgeable, experienced appraisers.

Guidance on Addressing Appraisal Deficiencies

If the lender considers an appraisal deficient, the lender has the following options for addressing the deficiencies:

- contacting the appraiser to address deficiencies contained in the appraisal report,
- obtaining a desk review or a field review of the original appraisal, or
- obtaining a new appraisal of the subject property.

The lender can return the appraisal report to the appraiser that completed the assignment, identify the deficiencies found, and provide justification for requesting correction of the deficiencies the lender believes make the report unreliable.

If the lender is unable to obtain a revised appraisal that adequately addresses its concerns, a desk or field review of the report may be obtained. The review must be completed in accordance with the USPAP. Because the Scope of Work for either type of review allows for a change of the opinion of market value for something other than a mathematical error, the appraiser completing the appraisal review must

- be licensed or certified in the state in which the property is located,
- have access to the appropriate data sources, and
- possess the knowledge and experience to appraise the subject property with respect to both the specific property type and geographical location.

The lender may forego either type of review and obtain a new appraisal. When a new appraisal is obtained, the lender must document the deficiencies that are the basis for ordering the new appraisal and adhere to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value. The lender must either document the resolution of the noted deficiencies in the original appraisal or detail the reasons for relying on a second opinion of market value.

Lender Requirements

A lender must continually evaluate the quality of the appraiser's work through the normal review process of all appraisal reports, as well as through the spot-check field review or desk review of appraisals as part of its quality assurance system. For detailed requirements, see D1-3-04, Lender Post-Closing Quality Control Review of Appraisers, Appraisals, Property Data Collectors, and Property Data Collection.

Fannie Mae's Referrals to State Appraiser Boards

Fannie Mae conducts different levels of due diligence for quality control purposes and may refer unacceptable appraisal reports to state appraiser licensing or regulatory boards for investigation.

Fannie Mae's objectives in referring appraisal reports to state appraiser licensing or regulatory boards are

- to emphasize continuing efforts to maintain the quality of appraisals,
- to protect Fannie Mae's interest,
- to improve the quality of mortgages delivered to Fannie Mae by identifying appraisers that have performed appraisals of a sufficiently poor quality as to impair the security interests,
- to help the industry enhance the quality of appraisals by identifying and referring appraisals that are not adequately supported or credible, and
- to help enforce professional standards.

> **Note**: Fannie Mae's decision to make such referrals does not affect the lender's responsibility for managing the property valuation and appraisal review process.

Refusal to Accept Appraisals from Specific Appraisers

Fannie Mae may refuse to accept appraisals prepared by specific appraisers, or Fannie Mae may notify a lender that appraisals prepared by a given appraiser are no longer accepted. When a lender is notified that appraisals from specific appraisers are no longer accepted, the lender is prohibited from delivering mortgages to Fannie Mae secured by properties appraised by that individual immediately following its receipt of Fannie Mae's notice.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-03	June 03, 2020
Announcement SEL-2018-01	January 30, 2018

Section B4-1.4, Special Appraisal and Other Valuation Considerations

B4-1.4-01, Factory-Built Housing: Manufactured Housing (02/01/2023)

Introduction

This topic contains information on manufactured housing appraisal requirements, including:

- Overview
- Manufactured Housing Appraiser Qualifications
- Manufactured Housing Appraisal Requirements and Standards
- Newly Constructed Manufactured Housing Appraisal Requirements
- Manufactured Housing Appraisal Site Requirements
- Manufactured Housing Appraisal Comparable Selection Requirements Excluding MH Advantage
- MH Advantage Appraisal Comparable Selection Requirements

- Manufactured Housing Appraisal Cost Approach Requirements
- Sources of Manufactured Housing Data

Overview

Fannie Mae requires market-based property valuations for manufactured homes demonstrated by a well-developed sales comparison approach to value that is further supported by the cost approach to value.

For manufactured housing property eligibility requirements, including special appraisal requirements for MH Advantage properties, see B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing. For manufactured housing mortgage eligibility and underwriting requirements, see B5-2, Manufactured Housing.

Manufactured Housing Appraiser Qualifications

The valuation principles for appraising manufactured homes are essentially the same as for other types of residential property. However, not all appraisers are knowledgeable and experienced about the unique construction process, as well as the manufacturers' and federal, state, and local requirements for both construction and installation.

The lender must ensure that the appraiser is knowledgeable about the local manufactured home market and the unique construction process for manufactured homes, and has access to appropriate data sources in order to render an opinion of value for the manufactured home. Lenders must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements as well as the Appraiser Independence Requirements.

Manufactured Housing Appraisal Requirements and Standards

The list below provides requirements and standards for manufactured housing appraisals.

- For purchase money mortgages, the lender must provide the appraiser with
  - a complete copy of the executed contract for sale of the manufactured home and land; or
  - a complete copy of the executed contract for both, if the manufactured home and land are purchased separately; and
  - a copy of the manufacturer's invoice if the manufactured home is new.

  The appraiser must analyze the contract(s) and the manufacturer's invoice for new manufactured homes, and provide a summary in the appraisal report.

- The appraiser must report the results of a manufactured home appraisal on the *Manufactured Home Appraisal Report* (Form 1004C). The use of Form 1004C will help to ensure that the appraiser inspected, considered, and reported the appropriate information including, but not limited to, the:
  - manufacturer's name,

  - trade or model number,
  - year of manufacture,
  - serial number,
  - Certification number(s) from the HUD Data Plate or HUD Certification Label(s),
  - type of foundation and utility connections,
  - detailed and supported cost approach,
  - opinion of the market value of the site, and
  - property's conformity to the neighborhood.

> **Note**: The appraiser must also provide photos of the HUD Data Plate and HUD Certification Label(s).

- The appraiser must indicate a value conclusion based solely on the real property as completed consisting of the
  - manufactured home,
  - site improvements, and
  - land on which the home is situated.

The value conclusion cannot include any non-realty items including, but not limited to, insurance, warranties, and furniture.

Newly Constructed Manufactured Housing Appraisal Requirements

For new manufactured homes not yet attached to the land or not yet constructed, the appraisal may be based on either plans and specifications or an existing model home. If required information is not available at the time the appraiser is completing the appraisal forms, the appraiser must appraise the property subject to the receipt and review of the items and completion of the improvements as a condition of the appraisal. Information that may not be available can include, but is not limited to, the dealer invoice, the HUD Data Plate, and the Certification Label numbers.

A certification of completion must be obtained before the mortgage is delivered to Fannie Mae. The certification must

- be completed by the original appraiser if possible, or if not possible, by a substitute appraiser as provided for in B4-1.2-04, Appraisal Age and Use Requirements;
- verify and state that the improvements were completed and all other requirements and conditions of the appraisal have been satisfied;
- include previously unavailable information, and a summary of the appraiser's analysis of any previously unavailable dealer invoice; and
- include photos of the completed improvements attached to the permanent foundation, and of the HUD Data Plate and HUD Certification Label(s), or acceptable alternatives.

Manufactured Housing Appraisal Site Requirements

The appraisal site requirements for manufactured housing are as follows:

- The appraiser must base their opinion of value on the characteristics of the subject property, including the site area. The appraisal report must indicate whether or not the site is compatible with the neighborhood, and must comment on the conformity of the manufactured home to other manufactured homes in the neighborhood.
- The property site must be of a size, shape, and topography that is conforming and acceptable in the neighborhood. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in their analysis and valuation. The appraiser must comment if the site has adverse conditions or is not typical for the neighborhood.

Manufactured Housing Appraisal Comparable Selection Requirements Excluding MH Advantage

The comparable selection requirements for manufactured housing appraisals, excluding MH Advantage are as follows:

- The appraiser must use a minimum of two comparable sales that are manufactured homes. If the subject property is a single-width manufactured home, one comparable must be a closed sale of the same single-width configuration, when available. If the appraiser is unable to find a single-width comparable sale, an active listing or “under contract” sale will qualify as a supplemental exhibit to show marketability. The appraiser may use either site-built housing or a different type of factory-built housing as the third comparable sale. The appraiser must explain why site-built housing or a different type of factory-built housing is being used for the third comparable sale, and make and support appropriate adjustments in the appraisal report.
- In markets where condo projects with manufactured homes are more common, at least two comparables should be manufactured homes located in a condominium project. In markets where condo projects with manufactured homes are atypical, the appraiser may select comparables from a mixture of manufactured homes and manufactured home condos provided the appraiser is able to provide adequate written explanation and make appropriate adjustments.
- An appraiser that is unable to locate sales of manufactured homes that are truly comparable to the subject property may decide it is appropriate to use either older sales of similar manufactured homes or sales of similar manufactured homes that are located in a competing neighborhood to establish a baseline for the “sales comparison analysis” and determine sound adjustments to reflect the differences between comparable sales that are available and the subject property.
- The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of the home. This type of information may be used as additional supporting documentation.

MH Advantage Appraisal Comparable Selection Requirements

MH Advantage properties are built to meet construction, architectural design, and energy efficiency standards that are more consistent with site-built homes. Accordingly, for MH Advantage properties, appraisers must use other MH Advantage properties (homes that have an MH Advantage sticker) for the comparable sales. However, if fewer than three MH Advantage sales are available, then the appraiser must supplement those comparable sales with the best and most appropriate sales available. Such sales must include a minimum of two site-built homes in recognition of the design standards for MH Advantage. There is no requirement to include factory-built home sales that are not MH Advantage, but if used, the appraiser must note why it was selected as a comparable sale, based on an assessment of the physical features of the subject property.

Manufactured Housing Appraisal Cost Approach Requirements

Fannie Mae requires a detailed and supported cost approach to value for all manufactured homes which must, at a minimum, contain the information indicated on the Form 1004C. The appraiser may choose to report the results of the cost approach on Form 1004C or by using a report form from a published cost service as an addendum to the appraisal report form. Whatever format the appraiser chooses to report the cost approach, the information must be sufficient to allow the lender to replicate the cost figures and calculations. The sales comparison and cost approach to value are complementary for the valuation of manufactured housing and must support the final value conclusion. A properly developed and detailed cost approach will provide the information necessary for an appraiser to

- recognize differences in manufactured home construction quality,
- understand the difference between the comparable sales and the subject property,
- extract from the market appropriate adjustments for the sales comparison analysis, and
- identify sales of manufactured homes that are similar enough to the subject property to use as comparable sales.

Sources of Manufactured Housing Data

Traditional appraisal data sources do not provide enough quality manufactured home data for the appraiser to develop a supportable and well-documented manufactured home appraisal. While sources such as MLS and public records are important and may contain some data, appraisers must utilize other data sources, such as manufactured home dealers and construction companies/builders experienced in the installation of manufactured homes.

One important source of manufactured housing information is the *NADA Manufactured Housing Appraisal Guide. That publication*

- lists general manufactured home depreciated replacement values based on original factory construction categories, and
- offers a step-by-step process for arriving at the average retail book value for a manufactured home and can be used to develop a cost approach.

> **Note**: NADA chart values assume the home is in average condition. The publication provides definitions for “excellent,” “good,” “average,” “fair,” and “poor” to appropriately identify the condition of the manufactured home.

Another source of information is Marshall & Swift's *Residential Cost Handbook. Marshall & Swift provides*

- information that enables the user to arrive at an estimate of the cost of the manufactured home when new and the replacement cost based on, among other things, the construction quality; as well as
- an explanation of the items that enables the appraiser to support their conclusion of the overall construction quality of the manufactured home.

The appraiser must support their opinion about both the quality and the condition of the manufactured home because they play a very important role in the value and marketability of manufactured homes. The NADA guide or the Marshall & Swift handbook may be used as additional sources to provide support for the appraiser's conclusions about the quality and value of a manufactured home.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-01	February 01, 2023
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2018-08	October 02, 2018
Announcement SEL-2018-05	June 05, 2018

B4-1.4-02, Factory-Built Housing: Modular, Prefabricated, Panelized, or Sectional Housing (10/06/2021)

Introduction

This topic contains information on special appraisal considerations for modular, prefabricated, panelized, or sectional housing, including:

- Overview
- Appraisal Requirements for Modular, Prefabricated, Panelized, or Sectional Housing
- Comparable Selection Requirements for Modular, Prefabricated, Panelized, or Sectional Housing

Overview

Modular homes must be built under the International Residential Code (IRC) that is administered by the state agency that is responsible for adopting and administering building code requirements for the state in which the modular home is installed. Prefabricated, panelized, or sectional housing does not have to satisfy either HUD's Federal Manufactured Home Construction and Safety Standards or the IRC that are adopted and administered by the state in which the home is installed. The home must conform to local building codes in the area in which it will be installed.

For modular, prefabricated, panelized, or sectional housing eligibility requirements, see B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing.

Appraisal Requirements for Modular, Prefabricated, Panelized, or Sectional Housing

Fannie Mae does not have minimum requirements for width, size, roof pitch, or any other specific construction detail for modular homes, or any other types of factory-built homes. Because quality can account for large differences in the values of factory-built homes, it is important for the appraiser to become familiar with the features that affect the quality of a factory-built home so that the information can be included in the appraisal report if needed to support their opinion of value.

Comparable Selection Requirements for Modular, Prefabricated, Panelized, or Sectional Housing

The process of selecting comparable sales for factory-built housing is generally the same as that for selecting comparable sales for site-built housing. Fannie Mae requires the appraiser to address both the marketability and comparability of modular homes and other types of factory-built housing. When the subject property is modular, prefabricated, panelized, or sectional housing, it is not required that one or more of the comparable sales be the same type of factory-built housing, although using comparable sales of similar types of homes generally enhances the reliability of the appraiser's opinion of value. Fannie Mae requires the appraiser to include in the appraisal report the most appropriate comparable sales data to support their opinion of value for the subject property. See B4-1.3-08, Comparable Sales, for general requirements regarding comparable selection.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-09	October 06, 2021

B4-1.4-03, Condo Appraisal Requirements (04/15/2014)

Introduction

This topic contains information on special appraisal considerations for units located in condo projects, including:

- Overview
- Appraisal Requirements for Units in a Condo Project

Overview

A condo project is one in which individual owners hold title to units in the project along with an undivided interest in the real estate that is designated as the common area for the project.

Appraisal Requirements for Units in a Condo Project

The appraisal of an individual unit in a condo project requires the appraiser to analyze the condo project as well as the individual unit. The value and marketability of the individual units in a project depend on the marketability and appeal of the project itself. Therefore, the appraiser must pay special attention to

- the location of the individual unit within the project,
- the project amenities, and
- the amount and purpose of the owner's association assessment.

See B4-1.3-08, Comparable Sales, for general requirements regarding comparable selection.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B4-1.4-04, Co-op Appraisal Requirements (04/15/2014)

Introduction

This topic contains information on special appraisal considerations for units in co-op projects, including:

Overview

A co-op corporation holds title to a co-op project and grants occupancy rights to particular apartments or units to shareholders through proprietary leases or similar arrangements. The co-op interest is the co-op shares or other evidence of an ownership interest in the co-op corporation and the accompanying occupancy rights, excluding the co-op interest's *pro rata share o*f the debt service of the blanket mortgage. In other words, the co-op interest is the equity portion that is over and above the *pro rata* share of the blanket mortgage(s).

> **Note**: The lender is required to receive Fannie Mae approval to deliver mortgages secured by units in co-op projects.

Appraisal Requirements for Co-op Share Loans

The appraisal requirements for co-op share loans are as follows:

- Appraisers must develop an opinion of the market value of the co-op interest when evaluating co-op units. To determine the value of the co-op interest, appraisers must consider and report, among other things, the following information:
    - the number of shares attributable to the unit;
    - the number of shares issued and outstanding for the co-op corporation;
    - the name of the lienholder, the lien position, and the amount and repayment terms of all project blanket financing;
    - the *pro rata* share of the blanket mortgage payments that are attributable to the unit, as determined by dividing the number of shares attributable to the unit by the total number of project shares;
    - the *pro rata* share of each lien that is attributable to the unit;
    - any tax abatements or exemptions that are attributable to the unit;
    - the remaining term for any tax abatements or exemptions and provisions for escalation of real estate taxes, which is the dollar amount by which the taxes will increase and the year in which the increase will occur; and
    - any monthly maintenance fees, including:
        - utility charges, if they are part of these fees;

- monthly special assessments;
- ground rent;
- other fees for the use of the facilities that are attributable to the unit; and
- the fee type, amount, and term (if applicable) of those other fees.

This information can be developed through *Request for Cooperative Project Information* (Form 1074), if the management agent, co-op board, or project sponsor/developer uses the form to respond to lender or appraiser inquiries for project information. When Form 1074 is used, appraisers may either transcribe the appropriate information to the applicable appraisal report or attach the form to the report as an addendum.

- Appraisers must use reliable sources to obtain data on the co-op project, the individual subject unit, and the comparable properties, and indicate the name of each source on the appraisal report or in an addendum to the appraisal report.
- Appraisers must address any factors that could result in an increase to the monthly debt service for the subject unit.
- Appraisers must indicate in the Sales Comparison Approach adjustment grid the dollar amount of the monthly assessments for each of the comparable sales.
- Appraisers must report the value of the co-op interest, excluding its *pro rata* share of the blanket mortgage(s). This value reflects the market value for the co-op interest of the unit. For example, when the indicated value of the unit encumbered by the blanket mortgage(s) is $100,000, and it's *pro rata* share of the blanket mortgage(s) is $25,000, the value estimate that the appraiser must report for the co-op interest of the unit is $75,000.
- Appraisers must include a certification in the appraisal report that the *pro rata* share of the blanket mortgage(s) on the real estate has not been included in the opinion of the market value of the co-op interest.

Comparable Selection Requirements for Co-op Share Loans

The comparable selection requirements for co-op share loans are as follows:

- Appraisers must comment on the acceptance of housing co-ops in the market area. The degree of acceptance is generally reflected in the availability of similar comparable sales data for co-op units. If there is limited market acceptance of the co-op form of ownership or if co-op forms of ownership are relatively new in the market area, appraisers must address any effect that has on the value and marketability of the unit that is being appraised. The appraiser must compare the subject unit to the general market area as well as to other units in the subject co-op project. This comparison demonstrates market acceptance of co-op units in the area.
- Comparable sales must be from similar types of projects that have similar common amenities and recreational facilities including, but not limited to, townhouses and mid-rise and high-rise buildings.
- When available, appraisers must use sales from co-op units as comparables. However, appraisers may use condo units as comparable sales if co-op units are not available, as long as the appraiser explains why those types of comparables were used and adjusts the condo comparables to reflect the reaction of the market to the co-op unit when there is a preference for condo ownership in the subject market area.

See B4-1.3-08, Comparable Sales, for general requirements regarding comparable selection.

Comparable Selection Requirements for Co-op Share Loans in Established Projects

Comparable sales from within the same project as the subject property should be used if the project has resale activity. Sales activity from within the project should be the best indicator of value for properties in that project.

> **Note**: Use of comparable sales located outside of the established subject neighborhood must be explained in the appraisal analysis.

When the subject property is a unit in an established co-op project that has sales activity, appraisers should use the following as comparables:

- two closed or settled sales from within the subject project, if available; and
- one closed or settled sale from a competing project.

See B4-1.3-08, Comparable Sales, for general requirements regarding comparable selection.

Comparable Selection Requirements for Co-op Share Loans in New (or Recently Converted) Projects

If the subject property is a unit in a new or recently converted co-op project, appraisers should select as comparables

- one closed or settled sale from the subject project, if one is available; and
- two closed or settled sales from outside of the project.

If closed or settled sales are not available in the subject project, appraisers must use sales from competing projects.

See B4-1.3-08, Comparable Sales, for general requirements regarding comparable selection.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B4-1.4-05, Leasehold Interests Appraisal Requirements (04/15/2014)

Introduction

This topic contains information on special appraisal considerations for properties subject to leasehold interests, including:

- Overview
- Appraisal Requirements for Leasehold Interests
- Comparable Selection Requirements for Leasehold Interests

Overview

A mortgage that is secured by a leasehold estate or is subject to the payment of "ground rent" gives the borrower the right to use and occupy the real property under the provisions of a lease agreement or ground lease, for a stipulated period of time, as long as the conditions of the lease are met. When the lease holder is a community land trust, there may be significant restrictions on both the purchase and resale of the property. For more information on appraising this type of leasehold, see B4-1.4-06, Community Land Trust Appraisal Requirements.

> **Note**: Manufactured housing located on leasehold interest properties is ineligible for delivery to Fannie Mae.

Appraisal Requirements for Leasehold Interests

The appraisal requirements for leasehold interest properties are as follows:

- Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases and include this information as an addendum to the appraisal report.
- Appraisers must discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property.

Comparable Selection Requirements for Leasehold Interests

When there are a sufficient number of closed comparable property sales with similar leasehold interests available, the appraiser must use the property sales in the analysis of market value of the leasehold estate for the subject property.

However, if not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were sold as fee simple estates. The appraiser must explain why the use of these sales is appropriate, and must make appropriate adjustments in the Sales Comparison Approach adjustment grid to reflect the market reaction to the different lease terms or property rights appraised. See B4-1.3-08, Comparable Sales, for general requirements regarding comparable selection.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B4-1.4-06, Community Land Trust Appraisal Requirements (04/15/2014)

Introduction

This topic contains information on special appraisal considerations for properties subject to a community land trust, including:

- Appraiser Qualifications for Appraising Properties Located in a Community Land Trust
- Appraisal Requirements for Community Land Trust Appraisals
- Comparable Selection Requirements for Determining Fee Simple Value
- Determining the Capitalization Rate
- Determining the Leasehold Value
- Addendum to the Appraisal Report

Appraiser Qualifications for Appraising Properties Located in a Community Land Trust

The lender must ensure that the appraiser is knowledgeable and experienced in the appraisal techniques, namely the direct capitalization and the market derivation of capitalization rates that are necessary to appraise a property subject to a leasehold estate held by a community land trust. Lenders must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements including the *Appraiser Independence Requirements.*

Appraisal Requirements for Community Land Trust Appraisals

The appraisal requirements for community land trust properties are as follows:

- The appraiser must analyze the property subject to the ground lease when a leasehold interest is held by a community land trust. Because the community land trust typically subsidizes the sales price to the borrower, that price may be significantly less than the market value of the leasehold interest in the property.
- The appraised value of the leasehold interest in the property must be well supported and correctly developed by the appraiser because the resale restrictions, as well as other restrictions that may be included in the ground lease, can also affect the value of the property. Fannie Mae has developed the

Community Land Trust Ground Lease Rider (Form 2100) that the lender and the borrower must execute to remove such restrictions from the community land trust's ground lease. The land records for the subject property must include adoption of the terms and conditions that are incorporated in that ground lease rider. The appraiser must develop the opinion of value for the leasehold interest under the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions that the ground lease rider removes when Fannie Mae has to dispose of a property acquired through foreclosure. (For additional information, see Section B5-5.3, Shared Equity Transactions, for legal considerations.)

- The appraiser must use a three-step process to develop an opinion of value.

Step	The appraiser must determine
1	the fee simple value of the property by using the sales comparison analysis approach to value,
2	the applicable capitalization rate and convert the income from the ground lease into a leased fee value by using the market-derived capitalization rate, and
3	the leasehold value by reducing the fee simple value by the lease fee value. (For detailed information related to this process, see below.)

> **Note:** When this appraisal technique is used, there is no need to document the actual land value of the security property.

- On the actual appraisal report form, the appraiser must
  - indicate "leasehold" as the property rights appraised,
  - provide the applicable ground rent paid to the community land trust,
  - show the estimated fee simple value for the property in the Sales Comparison Approach adjustment grid,
  - report the "leasehold value" as the indicated value conclusion, and
  - check the box "as is" and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered.

Comparable Selection Requirements for Determining Fee Simple Value

In determining the fee simple value of the subject property, the appraiser must use comparable sales of similar properties that are owned as fee simple estates. If this is not possible, the appraiser may use sales of properties that are subject to other types of leasehold estates as long as they make appropriate adjustments, based on the terms of their leases, to reflect a fee simple interest.

When the community or neighborhood has sales activity for other leasehold estates held by a community land trust, the appraiser must discuss them in the appraisal report, but must not use them as comparable sales because, in all likelihood, the sales prices will have been limited by restrictions in the ground lease. Therefore, these sales transactions would not be comparable to the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions on which Fannie Mae requires the appraisal of the subject property to be based. See B4-1.3-08, Comparable Sales, for general requirements regarding comparable selection.

Determining the Capitalization Rate

When the community has an active real estate market that includes sales of properties owned as fee simple estates and sales of properties subject to leasehold estates other than those held by community land trusts, the appraiser can use the most direct method for determining the capitalization rate, extracting it from the market activity. To extract the capitalization rate, the appraiser must divide the annual ground rent for the properties subject to leasehold estates by the difference in the sales prices for the comparable sales of properties owned as fee simple estates and the comparable sales of properties subject to leasehold estates.

If there are no available comparable sales of properties subject to leasehold estates other than those held by a community land trust, the appraiser must develop a capitalization rate by comparing alternative low-risk investment rates, such as the rates for long-term bonds, and selecting a rate that best reflects a “riskless” (safe) rate.

Determining the Leasehold Value

To determine the leasehold value of the subject property, the appraiser must first convert the annual income from the community land trust’s ground lease into a leased fee value by dividing the income by the market-derived capitalization rate. The appraiser must then reduce the estimated fee simple value of the subject property by this leased fee value to arrive at their opinion of the leasehold value of the subject property.

For example, assume that the annual ground rent from the community land trust’s ground lease is $300, the market-derived capitalization rate is 5.75%, and the estimated fee simple value of the subject property is $100,000:

- $300 annual rent/5.75% capitalization rate = $5,217.39 (rounded to $5,200)
- $100,000 fee simple value – $5,200 leased fee value = $94,800 (leasehold value)

Addendum to the Appraisal Report

Because Fannie Mae’s appraisal report forms do not include space to provide all of the details required for appraising a property subject to a leasehold held by a community land trust, the appraiser must attach an addendum to the appraisal report to provide any information that cannot otherwise be presented on the appraisal report form. As previously mentioned, the appraiser must check the box “as is” and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered. The addendum must also include the following statement:

“This appraisal is made on the basis of the hypothetical condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Community Land Trust Ground Lease Rider.”

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B4-1.4-07, Mixed-Use Property Appraisal Requirements (04/15/2014)

Introduction

This topic contains information on special appraisal considerations for mixed-use properties, including:

- Overview
- Appraisal Requirements for Mixed-Use Properties

Overview

Fannie Mae purchases or securitizes mortgage loans secured by properties that have a business use in addition to their residential use provided that special eligibility criteria are met. These business uses can include, but are not limited to, properties with space set aside for day care facilities, beauty or barber shops, or doctor's offices. For eligibility criteria, see B2-3-04, Special Property Eligibility Considerations.

Appraisal Requirements for Mixed-Use Properties

The appraisal requirements for mixed-use properties must

- provide a detailed description of the mixed-use characteristics of the subject property;
- indicate that the mixed use of the property is a legal, permissible use of the property under the local zoning requirements;
- report any adverse impact on marketability and market resistance to the commercial use of the property; and
- report the market value of the property based on the residential characteristics, rather than of the business use or any special business-use modifications that were made.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B4-1.4-08, Environmental Hazards Appraisal Requirements (03/01/2023)

Introduction

This topic contains information on special appraisal considerations for properties affected by environmental hazards, including:

- Overview
- Appraisal Requirements
- Lender Requirements

Overview

Fannie Mae purchases or securitizes mortgage loans secured by properties affected by environmental hazards if the effect of the hazard is measurable through an analysis of comparable market data as of the effective date of the appraisal, and the appraiser reflects in the appraisal report any adverse effect that the hazard has on the value and marketability of the subject property or indicates that the comparable market data reveals no buyer resistance to the hazard.

In rare situations, a particular environmental hazard may have a significant effect on the value of the subject property, although the actual effect is not measurable because the hazard is so serious or so recently discovered that an appraiser cannot arrive at a reliable opinion of market value because there is no comparable market data available, such as sales, contract sales, or active listings that are available to reflect the effect of the hazard. In such cases, the mortgage will not be eligible for delivery to Fannie Mae.

Appraisal Requirements

When the appraiser has knowledge of any hazardous condition, whether it exists in or on the subject property or on any site within the vicinity of the property, including but not limited to, the presence of hazardous wastes, toxic substances, asbestos-containing materials, urea-formaldehyde insulation, or radon gas, the appraiser must

- note the hazardous condition in the appraisal report;
- comment on any influence the hazard has on the property’s value and marketability, if it is measurable through an analysis of comparable market data as of the effective date of the appraisal, or indicate that the comparable market data reveals no buyer resistance to the hazard;
- make appropriate adjustments in the overall analysis of the property’s value; and
- make the appraisal "subject to" inspection by a qualified professional.

Fannie Mae expects the appraiser to consider and use comparable market data from the same affected area because the sales prices of settled sales, the contract sales prices of pending sales, and the current asking prices for active listings will reflect any negative effect on value and marketability of the subject property.

> **Note**: Fannie Mae does not consider the appraiser to be an expert in the field of environmental hazards. The typical residential real estate appraiser is neither expected nor required to be an expert in this specialized field. The appraiser, however, has a responsibility to note in the appraisal report any adverse conditions that were observed during the inspection of the subject property or information that they became aware of through the normal research involved in performing an appraisal.

Lender Requirements

Fannie Mae requires the lender to disclose any information regarding environmental hazards to the appraiser and note the individual mortgage file accordingly if the real estate agent, the property seller, the property purchaser, or any other party to the mortgage transaction informs the lender that an environmental hazard exists in or on the property, or in the vicinity of the property. Fannie Mae also requires the lender to disclose such information to the borrower, and to comply with any state or local environmental laws regarding disclosure.

The lender must make the final decision about the need for inspections and the adequacy of the property as security for the mortgage. For example, because Fannie Mae requires the appraiser to comment on the effect of a hazard on the value and marketability of the subject property, the appraiser would have to note when there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities. When the lender has reason to believe that private well water that is on or available to a property might be contaminated as a result of the proximity of the well to hazardous waste sites, the lender is exercising sound judgment if it obtains a “well certification” to determine whether the water meets community standards.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcements SEL-2023-02	March 01, 2023

B4-1.4-09, Special Assessment or Community Facilities Districts Appraisal Requirements (04/15/2014)

Introduction

This topic contains information on special appraisal considerations for properties in special assessment or community facilities districts, including:

Overview

Alternative methods for raising the capital necessary to satisfy utility and infrastructure requirements are sometimes used in the development of new residential communities. In some instances, this involves the creation of local districts called special assessment districts or community facilities districts that have the authority to assess homeowners for the cost of developing utility services and various infrastructure facilities, including, but not limited to, roads, sewer services, schools, police and fire protection services, and libraries.

Lender Responsibilities Related to Special Assessment or Community Facilities Districts

Fannie Mae expects the lender to know if a property is located in one of these districts and to be aware of the effect that assessments levied by the district could have on property values and the marketability of the subject property. The lender's appraiser, therefore, must give special consideration to the valuation of properties located in these districts.

Special Assessment Districts

Special assessment districts, also called special tax districts or municipal utility districts, provide a specific service to homeowners living in a designated area. They are most often established to provide water or other utilities in areas that are not served by existing city or municipal utility services. The need for these districts arises when an existing utility service does not have sufficient capacity, or may not find it economically feasible to provide services for newly created subdivisions that are located beyond its current operating area. State law governing the establishment of special assessment districts varies greatly, as does the financial strength of the individual districts. These districts are granted the authority to assess owners of properties within their boundaries for funds that will be used to cover their operating costs and debt service.

Special assessment districts that are established to serve newly developing subdivisions with utilities often base their financial plans and the amount of the assessment to be charged to each property owner on the expected number of properties in the area to be served. The district then depends on the continuation of development to maintain its budget expectations. If, for any reason, development stops short of the degree of development that the district anticipated in preparing its budget, the district can become financially distressed and may need to impose an additional assessment on the existing homeowners.

Appraisal Requirements for Properties Located in Special Assessment Districts

The appraisal requirements for properties located in special assessment districts must

- report any special assessments that affect the property, and
- note in the appraisal report if the special assessment district is experiencing financial difficulty and that the difficulty has an effect on the value or marketability of the subject property.

To ensure that the reaction of the market to the potential liabilities that may arise within a financially troubled special assessment district is reflected in their analysis, the appraiser must consider current and expired listings or properties for sale within the district and any pending contract sales and recent closed sales within the district.

There may be some instances in which the financial difficulty of a special assessment district is so severe that its actual effect on the value and marketability of a property is not measurable because there is no comparable market data available to enable the appraiser to arrive at a reliable opinion of market value. When this is the case, a mortgage secured by a property in that district will not be eligible for delivery to Fannie Mae until such time that an active market develops that will enable the appraiser to demonstrate the value and marketability of the subject property.

Community Facilities Districts

Some jurisdictions have passed legislation that creates community facilities districts and permits them to levy a special tax to fund the capital costs of a wide variety of public improvements, as well as the ongoing operation and maintenance costs of a limited number of public services. Proceeds from the special tax are used to support the sale of tax-exempt bonds for the various capital improvements that are allowed under the legislation, including but not limited to, roads, sewer services, schools, police and fire protection services, and libraries.

The assessment that will be used to repay the tax-exempt bonds becomes an ongoing responsibility of the property owner, similar to state and local property taxes. The assessment lien and the obligation to pay the assessment passes with the title to the property when ownership of the property is transferred.

Such legislation generally requires full disclosure of the special assessment to any purchaser of a property located in a community facilities district. Therefore, a lender originating mortgages in community facilities districts should disclose to the appraiser any information that it becomes aware of regarding special assessments on a given property.

Appraisal Requirements for Properties Located in Community Facilities Districts

Appraisers must be aware of whether the subject property and the comparables are located within or affected by a community facilities district because properties subject to an assessment by one of these districts often compete against properties that are either subject to a significantly different assessment or no assessment at all. Appraisers must consider the reaction of the market, if any, to the assessment for the applicable community facilities district by analyzing similarly affected comparable sales in their analysis, and should note the effect of the assessment in the appraisal report.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B4-1.4-10, Value Acceptance (Appraisal Waiver) (03/01/2023)

Introduction

This topic contains information about value acceptance (appraisal waiver), including:

Overview

For certain loan casefiles, DU offers value acceptance (appraisal waiver), in which case an appraisal is not required. For loan casefiles that are not eligible for value acceptance (appraisal waiver), DU will require an appraisal reported on the appropriate appraisal report form for the type of property being appraised.

Prior Appraisal Requirements

For value acceptance (appraisal waiver) to be considered, generally a prior appraisal must be found for the subject property in Fannie Mae's Collateral Underwriter (CU) data. When required, DU will compare the address for the subject property to the property addresses found in CU. DU will use the information from the prior appraisal to determine if the loan casefile is eligible for the appraisal waiver. In some cases, the prior appraisal may not be acceptable. For example, if a CU "Overvaluation Flag" was issued on the prior appraisal, or the appraisal could not be scored, that prior appraisal will not be used and an appraisal waiver will not be offered on the new loan casefile.

Eligible Transactions

A value acceptance (appraisal waiver) offer will be considered for the following transactions:

- one-unit properties, including condos;
- principal residence and second home transactions;
- investment property refinance transactions;

- certain purchase, limited cash-out, and cash-out refinance transactions; and
- DU loan casefiles that receive an Approve/Eligible recommendation.

Ineligible Transactions

The following transactions are not eligible for a value acceptance (appraisal waiver) offer:

- two- to four-unit properties;
- co-op units and manufactured homes;
- proposed construction;
- construction-to-permanent loans (single-close and two-close);
- HomeStyle Renovation and HomeStyle Energy loans;
- leasehold properties;
- Texas Section 50(a)(6) loans;
- community land trusts or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature;
- transactions where either the purchase price or estimated value provided to DU is $1,000,000 or more;
- transactions using gifts of equity;
- DU loan casefiles that receive an Ineligible recommendation; and
- manually underwritten loans.

> **Note:** DU may offer value acceptance (appraisal waiver) on a recently constructed property (i.e., new construction) when there is an existing "as is" prior appraisal for the subject property. For example, an appraisal of the subject property may have been performed for a different lender or borrower, but that loan did not close. The lender may execute the value acceptance (appraisal waiver) offer when the loan meets all other eligibility criteria for the transaction.

Furthermore, the lender may not exercise a value acceptance (appraisal waiver) offer and must order an appraisal if one or more of the following applies:

- DU was unable to identify ineligible criteria in the list above (for example, Texas Section 50(a)(6) loans);
- the lender is required by law to obtain an appraisal (see A3-2-01, Compliance With Laws);
- the lender is using rental income from the subject property to qualify the borrower; or
- the lender believes that an appraisal is warranted based on additional information the lender has about the property or subsequent events.

> **Note:** The lender may not exercise a value acceptance (appraisal waiver) offer if an appraisal is obtained for the transaction.

See B5-7-02, High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan for additional information about high LTV refinance value acceptance (appraisal waiver).

Representations and Warranties

When a loan casefile is eligible for value acceptance (appraisal waiver) and the offer is exercised by the lender, Fannie Mae accepts the value estimate submitted by the lender as the value for the subject property. See A2-2-06, Representations and Warranties on Property Value for more information.

Rural High-Needs Value Acceptance (Appraisal Waiver)

In selected rural high-needs areas, Fannie Mae may offer a value acceptance (appraisal waiver) through DU for certain transactions. This value acceptance (appraisal waiver) may be combined with other loan products, such as HomeReady.

The rural high-needs value acceptance (appraisal waiver) offer will be considered for the following transactions only:

- loan casefiles that receive an Approve/Eligible recommendation;
- purchase transactions;
- one-unit principal residence properties (excluding manufactured homes);
- borrowers with income at or below 100% of the area median income; and
- LTV ratios up to 97% and CLTV ratios up to 105% with a Community Seconds.

The following are ineligible for the rural high-needs value acceptance (appraisal waiver):

- cash-out or limited cash-out refinances;
- second homes and investment properties; and
- all other transactions that are ineligible for value acceptance (appraisal waiver) as listed above.

The following table provides the requirements related to the home inspection. These requirements must be met for the lender to exercise the rural high-needs appraisal waiver.

✓	**The lender must**
	obtain a home inspection to determine the property condition. The inspection report must be retained in the loan file and made available to Fannie Mae upon request.
	review the inspection report to verify the property condition. The content of the inspection report must be sufficient for the lender to determine whether the property is safe, sound, and structurally secure. Any issues that compromise safety, soundness, or structural integrity must be repaired before loan delivery.

✓	**The lender must**
	obtain an affidavit signed by the borrower(s) confirming that they received a copy of the property inspection report, read the report, and were notified of any lender-required repairs.
	confirm that the purchase contract contains an inspection contingency that offers the borrower(s) enough time to cancel the contract without penalty if they so choose, should the inspection reveal an issue with the property.
	confirm that the inspector has liability insurance.
	use a professional inspector that meets the state license and education requirements for those states that regulate inspectors. Note: In states that do not have inspector licenses, inspectors that are professionally accredited members in good standing of a nationally recognized property inspection organization must be used. The national organization must require education, testing, and adherence to a code of ethics and to standards of practice.
	represent and warrant that the property is safe, sound, and structurally secure and that the property is not in C6 condition. See A2-2-06, Representations and Warranties on Property Value and B4-1.3-06, Property Condition and Quality of Construction of the Improvements for additional information.

Exercising a Value Acceptance (Appraisal Waiver)

A lender may only exercise value acceptance (appraisal waiver) if

- the final submission of the loan casefile to DU resulted in a value acceptance (appraisal waiver) offer,
- an appraisal is not obtained for the transaction, and
- the value acceptance (appraisal waiver) offer is not more than four months old on the date of the note and the mortgage.

Lenders that elect to exercise value acceptance (appraisal waiver) must include SFC 801 at delivery. Lenders may not adversely select against Fannie Mae in determining which value acceptance (appraisal waiver) offers to accept. Fannie Mae may monitor the lender's exercise of value acceptance (appraisal waiver) offers and delivery of loans to Fannie Mae, and may take appropriate measures if adverse selection is identified.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2020-03	June 03, 2020
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-09	December 04, 2018
Announcement SEL-2018-07	September 04, 2018
Announcement SEL-2018-06	August 07, 2018
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2018-04	May 01, 2018
Announcement SEL-2018-02	February 27, 2018

B4-1.4-11, Value Acceptance + Property Data (03/01/2023)

Introduction

This topic contains information on value acceptance + property data including:

- Overview
- Eligible Transactions
- Ineligible Transactions
- Representations and Warranties
- Property Data Collection
- Property Data Collector
- Exercising Value Acceptance + Property Data

- Property Data Collection with Needed Repairs or Completion Verification

Overview

For certain loan casefiles, DU offers value acceptance + property data - an option that requires interior and exterior property data collection to verify property eligibility. An appraisal is not required.

Eligible Transactions

Loan casefiles for certain one-unit properties will be considered for value acceptance + property data.

Ineligible Transactions

The following transactions are not eligible for value acceptance + property data:

- two- to four-unit properties;
- condo (including detached condos) and co-op units;
- manufactured homes;
- proposed construction;
- construction-to-permanent loans (single-close and two-close);
- investment properties when rental income is used to qualify the borrower;
- HomeStyle Renovation and HomeStyle Energy loans;
- Texas 50(a)(6) loans;
- leasehold properties;
- community land trusts or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature;
- transactions where either the purchase price or estimated value provided to DU is $1,000,000 or more;
- transactions using gifts of equity;
- DU loan casefiles that receive an Ineligible recommendation; and
- manually underwritten loans.

Representations and Warranties

When a loan casefile is eligible for value acceptance + property data and exercised by the lender, Fannie Mae accepts the value estimate submitted by the lender as the value for the subject property. See A2-2-06, Representations and Warranties on Property Value for more information.

Property Data Collection

The property data collection consists of a visual observation of the interior and exterior areas of the subject property. It must be performed by a trained and vetted property data collector and must adhere to Fannie Mae's Property Data Standard. The Standard sets forth the minimum requirements for collection of subject property data including photos and a floor plan conforming to the ANSI Standard. (See *Gross Living Area* in B4-1.3-05, Improvements Section of the Appraisal Report for ANSI standards.) See Fannie Mae's *Property Data Collection User Guide* and *Property Data Standard* for more information.

After the property data collection is completed, it must be successfully submitted to Fannie Mae's Property Data API. Lenders and their agents must enter into a Software Subscription Agreement to deliver data to the API. See Fannie Mae's website for more information about the Property Data API and access.

Property Data Collector

The property data collector is the individual who personally visits the subject property to perform the property data collection guided by an application on a hand held device developed in compliance with Fannie Mae's Property Data Standard. The property data collector must identify and communicate any safety, soundness, or structural integrity issues and significant items of incomplete construction or renovation.

Lender Vetting of Property Data Collectors

The lender must verify and be able to demonstrate that the data collectors are

- vetted through an annual background check,
- professionally trained, and
- they possess the essential knowledge to competently complete the property data collection.

The lender must ensure that the data collectors are trained to comply with their fair lending laws and deliver accurate results unaffected by personal biases. To avoid conflict of interest, the lender must ensure that the data collector has no interest in or ties to the underlying loan origination transaction, participants, or subject property.

The lender or lender's agent must review the data collector's credentials and qualifications at least annually to ensure ongoing compliance. Evidence of the reviews must be available to Fannie Mae upon request.

The lender must monitor and assess the work performed by the data collector through the lender's quality control program including prefunding and post-closing reviews. The lender must continually evaluate the quality of its property data collectors and property data collection (see D1-3-04, Lender Post-Closing Quality Control Review of Appraisers, Appraisals, Property Data Collectors, and Property Data Collection).

Exercising Value Acceptance + Property Data

A lender may only exercise value acceptance + property data when

- the final submission of the loan casefile to DU resulted in an eligibility message for value acceptance + property data,
- property data collection is obtained after the initial DU offer,
- property data collection is submitted to the Property Data API,
- an appraisal is not obtained for the transaction, and
- the offer is not more than four months old on the date of the note and mortgage.

Lenders that elect to exercise value acceptance + property data must include Special Feature Code 774 at loan delivery. The property data collection is only valid for 12 months from date of collection.

If the value acceptance + property data offer is lost due to changes in qualifying loan characteristics after the property data collection was obtained, in some cases it may be possible for the lender to provide the property data collection to an appraiser to perform a hybrid appraisal assignment. See B4-1.2-03, Hybrid Appraisals for specific requirements. Alternatively, the lender may obtain a desktop or traditional appraisal report as specified by DU.

Property Data Collection with Needed Repairs or Completion Verification

The lender must represent and warrant that the property

- does not have safety, soundness, or structural integrity issues;
- is not in C6 condition;
- is not Q6 quality;
- does not have significant items of incomplete construction or renovation; and
- meets Fannie Mae's property eligibility requirements (see B2-3-01, General Property Eligibility).

To make these representations and warranties in the absence of an appraisal, the lender must examine the descriptive information and photo exhibits from the property data collection to determine whether the property meets the above requirements.

When the property data collection evidences any items failing eligibility requirements, the lender may need to obtain a professionally prepared report from a qualified professional to confirm the eligibility of the property and if repairs are required (well, septic, foundation, roof, electrical, mold, etc.). If repairs or alterations are necessary to bring the property into compliance with Fannie Mae's eligibility requirements, the lender must provide satisfactory evidence and documentation showing the condition has been corrected or completed prior to sale of the loan to Fannie Mae.

See *Form 1004D and Completion Alternatives* in B4-1.2-05, Requirements for Verifying Completion and Postponed Improvements for the applicable requirements to verify completion of repairs, alterations, or inspections.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	**Issue Dates**
Announcement SEL-2023-02	March 01, 2023

Chapter B4-2, Project Standards

Introduction

This chapter describes Fannie Mae's project standards, policies, and requirements.

Section B4-2.1, General Project Standards

B4-2.1-01, General Information on Project Standards (03/01/2023)

Introduction

This topic contains general information on Fannie Mae's project standards, including:

- Fannie Mae's Project Risk Overview
- Project Documentation
- Condominium Project Questionnaire
- Project Types
- Project Review Methods
- Waiver of Project Review
- Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project
- Priority of Common Expense Assessments
- Delivery Requirements
- Expiration for Project Reviews

Fannie Mae's Project Risk Overview

The quality of mortgages secured by units in condo, co-op, and planned unit development (PUD) projects can be influenced by certain characteristics of the project or by the project as a whole. Before delivering a loan secured by an individual unit in a project, the lender must determine that the project meets Fannie Mae's eligibility requirements.

Project eligibility risk is a risk that is distinct from the credit risk presented by individual borrowers. Units located in a project present risks that are also distinct from the risks associated with properties that are not part of a homeowners' association (HOA) or project. These risks include the following:

- the financial stability and viability of the project;
- the condition and marketability of the project;

- limitations on the unit owner's ability to control the decision-making for the project, occupy the unit, or utilize the project's amenities and common elements;
- dissolution of the project and the unit owner's resulting rights and responsibilities;
- project-level litigation;
- project-level misrepresentation and fraud;
- the inability to cure a mortgage default due to restrictions in the project documents such as, but not limited to, right of first refusal provisions; and
- insurance coverage that is inadequate to protect the project from unexpected losses.

Project eligibility and financial strength are key drivers of credit performance on individual unit mortgages and critical to the long-term success of the project. Fannie Mae's project eligibility and underwriting requirements seek to mitigate project level risks and to ensure that projects are demonstrably well-managed.

Lenders that sell mortgage loans secured by units in a condo, co-op, or PUD project to Fannie Mae are expected to have staff that are knowledgeable about and qualified to evaluate the specific risks presented by these types of projects. The project review is in addition to the review the lender completes for underwriting the borrower, the transaction terms, and the individual unit appraisal.

Fannie Mae's project standards requirements are intended to address common project types across a broad geographic range. If a lender determines that a project does not meet all of Fannie Mae's project eligibility criteria, but feels that the project has merit and warrants additional consideration, the lender may request an exception (see B4-2.2-07, Projects with Special Considerations and Project Eligibility Waivers, for additional information).

Project Documentation

The documentation needed to complete a project review may differ depending on the project and review type. Lenders are responsible for determining the documentation needed to ensure that the project meets all of Fannie Mae's eligibility requirements. Project documentation may include, but is not limited to, the following:

- legal and recorded documents including the covenants, conditions and restrictions, declaration of condominium, or other similar documents that establish the legal structure of the project;
- project budgets, financial statements, and reserve studies;
- project construction plans;
- architects' or engineers' reports;
- completion reports;
- project marketing plans;
- environmental hazard reports;
- attorney opinions;
- appraisal reports;
- evidence of insurance policies and related documentation; and
- condominium project questionnaires.

Sources for project information include, but are not limited to, appraisers, HOAs, co-op corporations, management companies, real estate agents, insurance professionals, and project developers. Lenders are responsible for the accuracy of any information obtained from these sources.

Document Retention

Lenders must retain all of the project documentation needed to demonstrate that the project meets Fannie Mae's eligibility requirements, including any documentation the lender relied upon to enter information into CPM. This documentation must be retained, and made available upon request, as long as lenders originate mortgages from the project, and until all mortgages sold to Fannie Mae have been liquidated.

Condominium Project Questionnaire

The *Condominium Project Questionnaire (Form 1076)* helps lenders collect data to determine condo project eligibility. This form is optional; however, lenders are encouraged to use and retain the form in the loan file. A substantially similar form may also be used in its place.

Project Types

The scope of Fannie Mae's requirements and the specific eligibility criteria to be met are dependent upon various project types and/or loan level characteristics. The characteristics that define each project type are described in the following table.

Project Type	Identification Criteria
Established condo project	A project for which all of the following are true: • at least 90% of the total units in the project have been conveyed to unit purchasers; • the project is 100% complete, including all units and common elements; • the project is not subject to additional phasing or annexation; and • control of the HOA has been turned over to the unit owners. A project may also be treated as an established project with less than 90% of the units sold to unit purchasers, provided the deficit is the result of the developer holding back units for rent. The following requirements must be met: • construction is 100% complete; • the project is not subject to any additional phasing or annexation, and the HOA has been turned over to the unit owners; • the developer's share of the units held back for rental is no more than 20% of the project's total units; • HOA fees are paid current in developer-held units; and • there are no active or pending special assessments in the project.

Project Type	Identification Criteria
New condo project	A project for which one or more of the following is true: • fewer than 90% of the total units in the project have been conveyed to unit purchasers (or 80% if it meets the exception noted in the row above); • the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo; • the project is newly converted; • the project is subject to additional phasing or annexation; or • HOA still in the developer's control.
Detached condo project	A project comprised solely of detached units or that comprises a mixture of attached and detached units and may be a new or established project.
Two- to four-unit condo project	A project comprised of two, three, or four residential units in which each unit is evidenced by its own title and deed. A two- to four-unit condo project may be either a new or established project and may be comprised of attached and/or detached units.
Manufactured home project	A project consisting partially or solely of manufactured homes.
Co-op project	A project in which a corporation or trust holds title to the property and sells shares of stock representing the value of a single apartment unit to individuals who, in turn, receive a proprietary lease as evidence of title.
Planned unit development (PUD) project	A project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD unit owners. The unit owners in the project have title to a residential property (lot and structure) and an interest in the HOA that owns or manages the common area and facilities of the PUD. See B4-2.3-01, Eligibility Requirements for Units in PUD Projects, for additional detail used in determining whether a project is subject to Fannie Mae's PUD eligibility requirements.

Horizontal Property Regimes

Fannie Mae considers a development to be a condo project any time it is declared or filed as a horizontal property regime in accordance with local statutes. Exception is made, if the local statute provides for the horizontal property regime to be created as a PUD development and the project's legal documents specifically state that the project is a PUD.

Lenders must determine if the subject unit is located in a condo or PUD and use the appropriate mortgage documents and appraisal forms.

Project Review Methods

Fannie Mae purchases or securitizes mortgage loans secured by units in condo, co-op, and PUD projects that meet Fannie Mae's eligibility requirements. To determine whether the project meets these requirements, a number of project review methods are available. Whether a project review method is allowable or required depends on

- the number of units in the project (two- to -four or more than four);
- the unit type (attached or detached);
- the project type (condo, co-op, or PUD);
- the project status (new or established); and
- the mortgage transaction.

The characteristics that dictate which method to use are shown in the following table.

Unit and Project Type	Project Review Methods
Attached condo unit in a new or newly converted project	• Full Review completed with Condo Project Manager (CPM), or • Fannie Mae Review through the standard Project Eligibility Review Service (PERS) process
Attached condo unit in an established project	Based on the LTV, CLTV, and HCLTV ratios, occupancy, and location (projects in Florida), these projects may be reviewed using a Limited Review. Projects not meeting the Limited Review criteria must be reviewed using a • Full Review (with CPM), • FHA Project Approval (HUD Review and Approval Process only), or • Fannie Mae Review through the streamlined PERS process (for established condo projects)
Unit in a new or established two- to four-unit condo project	Project review is waived, with the exception of some basic requirements that apply.

Unit and Project Type	Project Review Methods
Detached unit in a new or established condo project	Project review is waived, with the exception of some basic requirements that may apply.
Unit in a co-op project	• Full Review • Fannie Mae Review through the standard PERS process Note: Lenders must obtain special approval to be eligible to deliver co-op share loans to Fannie Mae secured by ownership interest in a co-op share project. See A2-1-01, Contractual Obligations for Sellers/Servicers, for additional information.
Multi-width manufactured homes in an established condo project	Full Review (without CPM)
• New condo projects consisting of manufactured homes • Co-op projects consisting of manufactured homes • PUD and condo projects consisting of single-width manufactured homes • Newly converted non-gut rehabilitation condo and co-op projects (with attached units) that contain more than four units • New or newly converted condo projects consisting of attached units located in Florida • Limited or shared equity co-op projects, provided the limited or shared equity provisions are designed to preserve or promote access to affordable housing	Fannie Mae Review through the standard PERS process
Established condo or PUD projects consisting of multi-width manufactured homes that are subject to a community land trust, deed restriction, leasehold estate, or shared equity arrangement	Fannie Mae Review through the streamlined PERS process

Unit and Project Type	Project Review Methods
Unit in a PUD project	Project review is waived, with the exception of some basic requirements that apply
Unit in a condo project approved by the FHA	FHA Project Approval (see B4-2.2-05, FHA-Approved Condo Review Eligibility for additional details)

Waiver of Project Review

Fannie Mae does not require a thorough project review for several types of projects or loan transactions, including:

- detached condo units;
- units in a two- to -four unit condo project;
- units in a PUD project;
- Fannie Mae to Fannie Mae limited cash-out refinances with LTV ratios < 80%; and
- high LTV refinance loans.

See B4-2.1-02, Waiver of Project Review for additional information and for the requirements that apply when a project review is waived.

Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project

All mortgages secured by units in condo, co-op, or PUD projects must comply with the following:

- requirements specific to the project review method used to determine that project's eligibility;
- property eligibility requirements (described in Chapter B2-3, Property Eligibility);
- priority of common expense assessments (described below);
- when an appraisal of the property is obtained, it must meet all applicable appraisal requirements (described in Chapter B4-1, Appraisal Requirements); and
- insurance requirements (described in Subpart B7, Insurance, including all applicable provisions in Chapter B7-4, Liability and Fidelity/Crime Insurance Requirements for Project Developments).

Priority of Common Expense Assessments

Fannie Mae allows a limited amount of regular common expense assessments (typically known as HOA fees) to have priority over Fannie Mae's mortgage lien for mortgage loans secured by units in a condo or PUD project. This applies if the condo or PUD project is located in a jurisdiction that has enacted

- the Uniform Condominium Act,
- the Uniform Common Interest Ownership Act, or
- a similar statute that provides for unpaid assessments to have priority over first mortgage liens.

The table below describes the permitted priority of common expense assessments for purposes of determining the eligibility of a mortgage loan secured by a unit in a condo or PUD project for purchase by Fannie Mae.

If the condo or PUD project...	Then...
is located in a jurisdiction that enacted a law on or before January 14, 2014, that provides that regular common expense assessments will have priority over Fannie Mae's mortgage lien for a maximum amount greater than six months,	the maximum number of months of regular common expense assessments permitted under the applicable jurisdiction's law as of January 14, 2014, may have priority over Fannie Mae's mortgage lien, provided that if the applicable jurisdiction's law as of that date referenced an exception for Fannie Mae's requirements, then no more than six months of regular common expense assessments may have priority over Fannie Mae's mortgage lien.
is located in any other jurisdiction,	no more than six months of regular common expense assessments may have priority over Fannie Mae's mortgage lien, even if applicable law provides for a longer priority period.

Notwithstanding any provisions to the contrary in the Guide, which do not require the lender to represent or warrant compliance with Fannie Mae project legal document requirements, the condo or PUD project legal documents must evidence compliance with the above priority of common expense assessment requirements.

Delivery Requirements

When delivering a loan for a unit located in a project, the lender must provide the Project Type Code and any applicable special feature codes as shown in the following table. The lender must also report all other applicable special feature code(s), including those specified in a variance in the Lender Contract and in the *Special Feature Codes* document on Fannie Mae's website.

Project Type Code	Description
E	Established PUD project
F	New PUD project

Project Type Code	Description
P	Limited Review—New condo project
Q	Limited Review—Established condo project
R	Full Review—New condo project
S	Full Review—Established condo project
T	Fannie Mae-approved condo or PUD project, including those approved through PERS
U	FHA-approved condo project
V	Condo project review waived - for certain project and transaction types
1	Full Review—Co-op project
2	Fannie Mae-approved co-op project, including those approved through PERS
Special Feature Code	**Description**
588	Detached Condominium Unit Used to identify detached units in an attached or detached condominium project
296	Project Eligibility Waiver Used to identify loans for which Fannie Mae has provided a loan-level waiver for a specific project eligibility requirement

CPM ID Delivery Requirements

Lenders are required to deliver the CPM ID number in the field for "FNM Condominum Project Manager Project Identifier" (Sort ID 39) in ULDD for the following projects:

- projects that require the use of CPM; and
- projects with a Fannie Mae Approval that are delivered as Type T, or Type 2 co-ops.

Lenders are encouraged to include the condo or co-op's HOA or Project IRS Federal Tax Identification Number

(TIN) in the loan file and in CPM.

Expiration for Project Reviews

Project reviews must meet the following timeline requirements.

Project Review Process Employed	Expiration of Project Review
• Limited Review • Full Review for Established Projects	Must have been completed within one year prior to the note date
Full Review for New Projects	Must have been completed within 180 days prior to the note date
Approved by Fannie Mae as reflected in CPM	Must be valid (unexpired) as of the note date
Approved by FHA	Must be valid (unexpired) as of the note date

Loans must be delivered to Fannie Mae within 120 days following the note date. When the elapsed time between note date and delivery date exceeds this limit, the lender may deliver the loan only if the project continues to meet Fannie Mae project eligibility requirements at the time of delivery.

Loans secured by units in a project that fails to meet Fannie Mae's project eligibility requirements under the applicable review type as of the note date are eligible for delivery after the project comes into compliance with the eligibility requirements (provided all standard mortgage seasoning and other applicable requirements are met). For example, if a lender closes a loan in a new project for which the pre-sales are less than the pre-sale requirement, the lender may deliver the loan after the project's pre-sales meet the Fannie Mae requirement (assuming the loan meets all other applicable requirements).

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2022-02	March 02, 2022
Announcement SEL-2021-11	December 15, 2021

Announcements	Issue Date
Announcement SEL-2021-03	April 07, 2021
Announcement SEL-2021-02	March 03, 2021
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2020-04	August 05, 2020
Announcement SEL-2020-03	June 03, 2020
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2019-06	July 03, 2019
Announcement SEL-2018-08	October 02, 2018
Announcement SEL-2018-07	September 04, 2018
Announcement SEL-2018-06	August 07, 2018
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2018-01	January 30, 2018

B4-2.1-02, Waiver of Project Review (07/05/2023)

Introduction

This topic contains information on the waiver of project reviews, including:

- Transactions Eligible for a Waiver of Project Review
- Requirements that Apply When the Project Review is Waived

- Project Review Requirements for High LTV Refinance Loans

Transactions Eligible for a Waiver of Project Review

Fannie Mae does not require a thorough project review for the project types and transactions described in the following table.

Project or Transaction Type	Requirements
Detached condo unit	A detached condo is defined as any condo unit that is completely detached from other condo units in the project. The unit may share no adjoining walls, ceilings, floors, or other attached architectural elements (such as breezeways or garages) with any neighboring unit. A detached condo unit may be in a project consisting solely of detached units or in a development containing a mixture of attached and detached units. Site condos in which the unit owner owns the detached condo unit and the land upon which the unit is built are a type of detached condo. The waiver of project review applies for new and established projects.
Unit in a two- to four-unit condo project	Project review is waived for new and established condo projects that consist of no more than four units.
Unit in a PUD project	See B4-2.3-01, Eligibility Requirements for Units in PUD Projects, for the requirements that apply.
Fannie Mae to Fannie Mae limited cash-out refinance	Project review is waived for units in condo projects for Fannie Mae-owned loans that are refinanced as a limited cash-out refinance with a maximum loan-to-value ratio of 80% (CLTV or HCLTV ratios may be higher). (The waiver is not applicable to units in co-op projects.)

Exception to the waiver policy: If the property is a manufactured home or the project contains any manufactured homes, such property or project is not eligible for a review waiver and must be reviewed based on the applicable manufactured home project review requirement.

Requirements that Apply When the Project Review is Waived

The following requirements apply, in addition to those noted above, when a project review is waived:

- property eligibility requirements (described in *Chapter B2-3, Property Eligibility*);
- the project is not in Condo Project Manager (CPM) with a status of "Unavailable";
- the project is not a condo hotel or motel, houseboat project, or a timeshare or segmented ownership project (described in B4-2.1-03, Ineligible Projects);
- priority of common expense assessments (described in B4-2.1-01, General Information on Project Standards);
- when an appraisal of the property is obtained, it must meet all applicable appraisal requirements (described in *Chapter B4-1, Appraisal Requirements*);
- insurance requirements (described in *Subpart B7, Insurance*, as applicable); and
- there are no unaddressed critical repairs outstanding or projects with evacuation orders (described in B4-2.1-03, Ineligible Projects) if the loan is a Fannie Mae to Fannie Mae limited cash-out refinance.

Project Review Requirements for High LTV Refinance Loans

Fannie Mae waives the project review requirements for high LTV refinance loans secured by units in a condo, co-op, or PUD project. See B5-7-01, High LTV Refinance Loan and Borrower Eligibility for the requirements.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	**Issue Date**
Announcement SEL-2023-06	July 05, 2023
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-07	September 04, 2018
Announcement SEL-2018-06	August 07, 2018

B4-2.1-03, Ineligible Projects (07/05/2023)

Introduction

This topic contains information on ineligible projects and related criteria, including:

- List of Ineligible Project Characteristics
- Projects that Operate as Hotels or Motels
- Projects Subject to Split Ownership Arrangements
- Projects that Contain Multi-Dwelling Unit Condos or Co-ops
- Projects with Property that is not Real Estate
- Projects that Operate as a Continuing Care Community or Facility
- Non-Incidental Business Arrangements
- Commercial Space and Mixed-Use Allocation
- Recreational Leases and Mandatory Memberships
- Live-Work Projects
- Litigation or Pre-litigation Activity
- Single-Entity Ownership
- Projects in Need of Critical Repairs

List of Ineligible Project Characteristics

Fannie Mae will not purchase or securitize mortgage loans that are secured by units in certain condo or co-op projects if those projects have characteristics that make the project ineligible. Such characteristics are described in the table below, with additional details provided in the sections that follow. All eligible projects must be created and remain in full compliance with state law and all other applicable laws and regulations of the jurisdiction in which the project is located. Loans secured by units in projects with a status of "Unavailable" in Condo Project Manager (CPM) are ineligible for purchase by Fannie Mae.

> **Note:** If a lender determines that a project does not meet all of Fannie Mae's project eligibility requirements but believes that the project has merit and warrants additional consideration, the lender may request an exception (see B4-2.2-07, Projects with Special Considerations and Project Eligibility Waivers, for additional information).

Ineligible Project Characteristics	Condo Project Type	Co-op Project Type
Timeshare, fractional, or segmented ownership projects.	✔	✔
New projects where the seller is offering sale or financing structures in excess of Fannie Mae's eligibility policies for individual mortgage loans. These excessive structures include, but are not limited to, builder/developer contributions, sales concessions, HOA assessments, or principal and interest payment abatements, and/or contributions not disclosed on the settlement statement.	✔	✔

Ineligible Project Characteristics	Condo Project Type	Co-op Project Type
Any project that permits a priority lien for unpaid common expenses in excess of Fannie Mae's priority lien limitations. (See B4-2.1-01, General Information on Project Standards for additional detail.)	✔	
Co-op projects that are subject to leasehold estates.		✔
Limited or shared equity co-ops that have not been approved by Fannie Mae through the PERS process, as required. These are projects in which the co-op corporation places a limit on the amount of return that can be received when stock or shares are sold.		✔
A tax-sheltered syndicate's leasing to a co-op or "leasing" co-ops – projects that involve the leasing of the land and the improvements to the co-op corporation, even if the co-op corporation owns part of the building.		✔
Co-op projects in which the developer or sponsor has an ownership interest or other rights in the project real estate or facilities other than the interest or rights it has in relation to unsold units.		✔
Projects that are managed and operated as a hotel or motel, even though the units are individually owned. (See *Projects that Operate as Hotels or Motels* below for additional detail.)	✔	✔
Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize the property. (See *Projects Subject to Split Ownership Arrangements* below for additional detail.)	✔	✔

Ineligible Project Characteristics	Condo Project Type	Co-op Project Type
Multi-dwelling unit projects that permit an owner to hold title (or stock ownership and the accompanying occupancy rights) to more than one dwelling unit, with ownership of all of their owned units (or shares) evidenced by a single deed and financed by a single mortgage (or share loan). (See *Projects that Contain Multi-Dwelling Unit Condos or Co-ops* below for additional detail.)	✔	✔
Projects with property that is not real estate, such as houseboat projects. (See *Projects with Property that is not Real Estate* below for additional detail.)	✔	✔
Any project that is owned or operated as a continuing care facility. (See *Projects that Operate as a Continuing Care Community or Facility* below for additional detail.)	✔	✔
Projects with non-incidental business operations owned or operated by the HOA including, but not limited to, a restaurant, spa, or health club. (See *Non-Incidental Business Arrangements* below for additional detail and exceptions to this policy.)	✔	
The total space that is used for nonresidential or commercial purposes may not exceed 35%. (See *Commercial Space and Mixed-Use Allocation* below for additional detail.)	✔	✔
Projects with mandatory upfront or periodic membership fees for the use of recreational amenities, such as country club facilities and golf courses, owned by an outside party (including the developer or builder). Membership fees paid for the use of recreational amenities owned exclusively by the HOA or master association are acceptable. (See *Recreational Leases and Mandatory Memberships* below for additional information.)	✔	✔
Projects that do not meet the requirements for live-work projects. (See *Live-Work Projects* below for additional detail.)	✔	✔

Ineligible Project Characteristics	Condo Project Type	Co-op Project Type
Projects in which the HOA or co-op corporation is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project. (See *Litigation or Pre-litigation Activity* below for additional detail.)	✔	✔
Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project: • projects with 5 to 20 units – 2 units • projects with 21 or more units – 20% (See *Single-Entity Ownership* below for additional detail.)	✔	✔
Projects in need of critical repairs, including material deficiencies and significant deferred maintenance. (See *Projects in Need of Critical Repairs* below for additional detail.)	✔	✔

Projects that Operate as Hotels or Motels

A project may not be operated or managed as a hotel, motel, or similar commercial entity as evidenced by meeting one or more of the following criteria:

- The HOA is licensed as a hotel, motel, resort, or hospitality entity.
- The HOA or project's legal documents restrict owners' ability to occupy the unit during any part of the year.
- The HOA or project's legal documents require owners to make their unit available for rental pooling (daily or otherwise).
- The HOA or the project's legal documents require unit owners to share profits from the rental of units with the HOA, management company, or resort, or hotel rental company.

In addition to the requirements above, any project with one or more of the following characteristics is ineligible. The project

- is primarily transient in nature;

- offers hotel type services (including those offered by or contracted through the HOA or management company) or characteristics such as registration services, rentals of units on a daily or short-term basis, daily cleaning services, central telephone service, central key systems and restrictions on interior decorating;
- is a conversion of a hotel (or a conversion of a similar type of transient housing) unless the project was a gut rehabilitation and the resulting condo units no longer have the characteristics of a hotel or similar type of transient housing building;
- is subject to voluntary rental-pooling, revenue, profit or commission sharing agreements with the HOA or management company, or similar agreements that restrict the unit owner’s ability to occupy the unit such as blackout dates and occupancy limits to assure an inventory of units for rent on a frequent basis. This may include daily, weekly, monthly or seasonal restrictions;
- is professionally managed by a hotel or resort management company that also facilitates short term rentals for unit owners or projects with management companies that are licensed as a hotel, motel, resort, or hospitality entity;
- is deemed to be ineligible under Freddie Mac’s requirements because of condo hotel, resort, transient or short-term rental activity;
- has a legal or common name that contains hotel, motel, or resort, unless the use of hotel, motel, or resort is a reference to a historical use of the building and not reflective of its current use as a residential condo or co-op project;
- is marketed as a hotel, motel, resort or investment opportunity; or
- has obtained a hotel or resort rating for its hotel, motel, or resort operations through hotel ratings providers including, but not limited to, travel agencies, hotel booking websites, and internet search engines.

The following criteria are examples of some common red flags. The lender should perform additional due diligence of the project when any of these characteristics are present:

- 75% or more of the units are owned as investment and second home occupancy - especially when the loan transaction is not a principal residence transaction;
- units that do not contain full-sized kitchen appliances;
- advertisements for daily or short-term rental rates;
- franchise agreements;
- location of the project in a resort area;
- units that are less than 400 square feet;
- amenities that are common in hotels or resorts including spa services, concierge services, rentals of recreational equipment or amenities, childcare services for short-term renters, scheduled social or entertainment activities for short-term renters, airport shuttles, ski lift shuttles or ski lift and trail passes, or other vacation amenities and packages; or
- interior doors that adjoin different units.

Projects Subject to Split Ownership Arrangements

Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize the property are not eligible for delivery to Fannie Mae. These types of properties include, but are not limited to, the following:

- "common interest" apartments or community apartment projects that are projects or buildings owned by several owners as tenants-in-common or by an association in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building;
- projects that restrict the owner's ability to occupy the unit, even if the project is not being operated as a motel or hotel; and
- projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over the occupancy of the units.
  - These are formal agreements between the developer, association, and/or the individual unit owners that obligate the unit owner to rent the property on a seasonal, monthly, weekly, or daily basis. In many cases, the agreements include blackout dates, continuous occupancy limitations, and other such use restrictions. In return, the unit owner receives a share of the revenue generated from the rental of the unit.

Projects that Contain Multi-Dwelling Unit Condos or Co-ops

Projects that contain multi-dwelling units are not permitted. These projects allow an owner to hold title (or share ownership and the accompanying occupancy rights) to a single legal unit that is sub-divided into multiple residential dwellings within the single legal unit, with ownership of the unit (or shares) evidenced by a single deed and financed by a single mortgage (or share loan). The sub-divided units are not separate legal units. This restriction applies regardless if the unit owner maintains one or more of the sub-divided units as rental units or uses one or more of the sub-divided units as accessory or lock-out units.

This provision does not apply to condo or co-op projects that allow an individual to buy two or more individual legal units with the intent of structurally and legally combining the units for occupancy as a single-unit dwelling. Mortgages secured by units in these types of projects are eligible for purchase and securitization by Fannie Mae provided all of the following requirements are met:

- The unit securing the mortgage represents a single legal unit under a single deed.
- Any construction or renovation to structurally combine units has no material impact on the structural or mechanical integrity of the project's buildings or the subject property unit.
- The individual units must be fully described in the legal description in the mortgage and under a single deed.
- The project's legal documents must have been amended to reclassify the combined units as a single unit in the project.
- All structural renovation to physically combine the units must be completed.

A condo or co-op unit with an accessory unit may be eligible on a case-by-case basis with a Fannie Mae PERS Project Approval or a loan-level project eligibility waiver. See B4-2.2-07, Projects with Special Considerations and Project Eligibility Waivers, for additional information on submitting an exception request.

Projects with Property that is not Real Estate

Fannie Mae acquires mortgage loans secured by real estate. Houseboats, boat slips, cabanas, timeshares, and other forms of property that are not real estate are not eligible for delivery to Fannie Mae. The marketability and value of individual units in a project may be adversely impacted by the inclusion of non-real estate property such as houseboats, timeshares, and other forms and structures that are not real estate. As such, projects containing these other non-real estate forms of property are not eligible.

Boat slips, cabanas, and other amenities are permitted when owned in common by the unit owners as part of the HOA.

Projects that Operate as a Continuing Care Community or Facility

Mortgages secured by units in a project that operates, either wholly or partially, as a continuing care community are ineligible for delivery to Fannie Mae. These communities or facilities are residential projects designed to meet specialized health and housing needs and typically require residents to enter into a lifetime contract with the facility to meet all future health, housing, or care needs. These communities may also be known by other names such as life-care facilities.

Projects that make continuing care services available to residents are eligible only if the continuing care facilities or services are not owned or operated by the HOA and residential unit owners are not obligated to purchase or utilize the services through a mandatory membership, contract, or other arrangement.

Continuing care communities are not the same as age-restricted projects. Age-restricted projects that restrict the age of residents but do not require residents to enter into a long-term or lifetime contract for healthcare and housing as the residents age are eligible.

Non-Incidental Business Arrangements

A condo project is ineligible if the HOA is receiving more than 10% of its budgeted income from non-incidental business arrangements related to the active ownership and/or operation of amenities or services available to unit owners and the general public. This includes, but is not limited to, businesses such as a restaurant or other food- and beverage-related services, health clubs, and spa services.

Non-incidental income from the following sources is permitted provided the income does not exceed 15% of the project’s budgeted income:

- income from the use of recreational amenities or services owned by the HOA for the exclusive use by unit owners in the project or leased to another project according to a shared amenities agreement (as noted below), or
- income from the leasing of units in the project acquired by the HOA through foreclosure.

The single-entity ownership limits (described above) will apply to the number of units owned and rented by the HOA.

Commercial Space and Mixed-Use Allocation

Fannie Mae requires that no more than 35% of a condo or co-op project or 35% of the building in which the project is located be commercial space or allocated to mixed-use. This includes commercial space that is above and below grade. Note that projects located in Special Flood Hazard Areas with commercial space greater than 25% of the project's square footage, including any commercial parking facilities, may need supplemental or private flood insurance policies to meet Fannie Mae's requirements for flood insurance. Coverage under the National Flood Insurance Program may provide inadequate coverage for projects with commercial space in excess of 25%. See B7-3-06, Flood Insurance Requirements for All Property Types for additional information.

Any commercial space in the project or in the building in which the residential project is located must be compatible with the overall residential nature of the project.

> **Note:** Rental apartments and hotels located within the project must be classified as commercial space even though these may be considered "residential" in nature. Commercial parking facilities can be excluded from the commercial space calculation.

Calculation of Commercial Space. Commercial space allocation is calculated by dividing the total non-residential square footage by the total square footage of the project or building. Lenders are responsible for determining the total square footage of the project, the square footage of the non-residential space, and the residential space square footage. This calculation includes the total square footage of commercial space even if the residential and commercial owners are represented by separate associations.

Non-residential square footage includes:

- retail and commercial space, and
- space that is non-residential in nature and owned by a private individual or entity outside of the HOA structure.

Examples include, but are not limited to:

- rental apartments,
- hotels,
- restaurants, and
- private membership-based fitness facilities.

Non-residential square footage excludes amenities that are:

- residential in nature;
- designated for the exclusive use of the residential unit owners (such as, but not limited to, a fitness facility, pool, community room, and laundry facility); and
- owned by the unit owners or the HOA.

The following table shows which commercial or mixed-use space must be included in the calculation of the percentage of commercial space.

If the commercial or mixed-use space is…	Then its square footage is included in the calculation of commercial space percentage
owned, controlled, or operated by the subject property's HOA that is unrelated to the project-specific amenities offered for the exclusive use and enjoyment by the HOA members	Yes
owned by the subject property's HOA but controlled or operated by a separate private entity **Example:** Office space owned by the HOA but leased to a private business.	Yes
owned and controlled by a project HOA other than the subject property's HOA that shares the same master HOA with the subject property's HOA AND the commercial space is co-located in the project's building(s) that contain(s) the residential units	Yes
owned, controlled, or operated by a private entity that is co-located in the building(s) that contain(s) the project's residential units **Example:** • floors 1 to 4 consist of hotel and retail, • floors 5 to 7 consist of privately-owned and -managed rental apartments, and • the remaining floors consist of the condo project units.	Yes
owned, controlled, or operated by a private entity that is NOT co-located in the building(s) or common elements as declared in the project legal documents that contain(s) the project's residential units	No
owned and controlled by a project HOA other than the subject property's HOA that shares the same master HOA with the subject property's HOA BUT the commercial space is located in a building that is separate from the building(s) containing the project's residential units	No

Recreational Leases and Mandatory Memberships

Loans securing units in condo and co-op projects with mandatory memberships that require the HOA or co-op members to pay dues to a third-party organization (such as a golf course or other recreational facility) are ineligible for sale to Fannie Mae. The project must be the sole owner of its amenities, though certain exceptions will be allowed when there is a shared amenities agreement between HOAs or co-op projects.

Projects subject to recreational leases are also not eligible. A recreational lease is a long-term lease between the HOA and a third party for access to certain recreational facilities for a specified time period and payment. In these scenarios, the owner of the facilities is often the project's developer or has some financial relationship to the developer and the leases often provide ongoing profit to this party for the duration of the lease. The lease may permit the owner of the facilities to lease the amenities to other parties in addition to the HOA or co-op. The HOA or co-op may have certain financial, insurance, and other legal obligations under the lease that may be burdensome over time. These leases may or may not provide the project long-term access to the amenities beyond the initial lease term.

When an HOA is part of a master association, the lender is required to evaluate whether the subject property's HOA members are required to participate in a mandatory membership that is managed through the master association. Additionally, the master association may not be subject to recreational leases as described above.

Lenders are encouraged to review the project's legal documents, sales contract, and budget to identify mandatory memberships and recreational leases. Some red flags that a project may require a mandatory membership, or be a party to a recreational lease, is that the amenities may have some of the following characteristics:

- the amenities have a different name from the residential project and may be recognized as a different legal entity from the HOA,
- owners are required to pay large up-front fees to become a member or have access to the amenities,
- owners are required to pay monthly or periodic dues to the entity that owns or operates the amenities (these dues may be paid directly to the owner or operator or they may be paid to the HOA and passed through to the owner or operator),
- the general public may be able to purchase memberships or access passes for the use of the amenities,
- the amenities can be leased or rented to the public for events not hosted by the HOA or its members, or
- HOA members may be subject to block-out dates or other use restrictions.

Live-Work Projects

Live-work projects are projects that permit individual residential unit owners to operate and run a small business from their residential unit. Units in projects that permit live-work arrangements are eligible for sale to Fannie Mae provided the project complies with all applicable local zoning, program, or statutory requirements for live-work projects and the nature of the project is primarily residential.

Litigation or Pre-litigation Activity

Projects in which the HOA or co-op corporation is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project are ineligible for sale to Fannie Mae.

If a lender discovers that a project is engaging in pre-litigation activities (such as, but not limited to, arbitration or mediation) that are reasonably expected to proceed to formal litigation; the lender must apply Fannie Mae's litigation policies. Whether the legal action is resolved through arbitration, mediation, or it proceeds to litigation, there is risk that the project is exposed to material financial hardship related to the matters addressed in the complaint.

If the lender determines that pending litigation involves minor matters with no impact on the safety, structural soundness, habitability, or functional use of the project, the project is eligible provided the litigation meets one or more of the following:

- non-monetary litigation including, but not limited to neighbor disputes or rights of quiet enjoyment;
- litigation for which the insurance carrier has agreed to provide the defense, and the amount is covered by the HOA's or co-op corporation's insurance;
- the HOA or co-op corporation is the plaintiff in the litigation and upon investigation and analysis the lender has reasonably determined the matter is minor and will result in an insignificant impact to the financial stability of the project;
- the reasonably anticipated or known damages and legal expenses are not expected to exceed 10% of the project's funded reserves;
- the HOA or co-op corporation is seeking recovery of funds for issues that have already been remediated, repaired, or replaced and there is no anticipated material adverse impact to the HOA or co-op corporation if funds are not recovered;
- litigation concerning localized damage to a unit in the project that does not impact the overall safety, structural soundness, habitability, or functional use of the project; or
- the HOA or co-op corporation is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA or co-op assessments.

Litigation that involves personal injury or death does not meet Fannie Mae's criteria for minor litigation unless

- the claim amount is reasonably anticipated or known,
- the insurance carrier has agreed to provide the defense, and
- the reasonably anticipated or known damages are covered by the HOA's or co-op corporation's insurance.

Construction defect litigation in which the HOA or co-op corporation is the plaintiff are not considered a minor matter unless the HOA or co-op corporation is seeking recovery of funds for issues that have already been remediated, repaired, or replaced. In addition, there is no anticipated material adverse impact to the HOA or co-op if the funds are not recovered.

The lender must obtain documentation to support its analysis that the litigation meets Fannie Mae's criteria for minor litigation as described above.

Single-Entity Ownership

A project meets the definition of single-entity ownership when a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project:

- projects with 5 to 20 units - 2 units
- projects with 21 or more units - 20%

Units currently subject to any rental or lease arrangement must be included in the calculation. This includes lease arrangements containing provisions for the future purchase of units such as lease-purchase and rent-to-own arrangements.

The following may be excluded from the single-entity ownership calculation:

- units that are owned by the project sponsor or developer and are vacant and being actively marketed for sale; or
- units that are controlled or owned by a non-profit entity for the purpose of providing affordable housing, units held in affordable housing programs (including units subject to non-eviction rent regulation codes), or units held by higher-education institutions for a workforce housing program.

The single-entity ownership requirement may be waived when the transaction is a purchase transaction that will result in a reduction of the single-entity ownership concentration. In such instances, the following requirements must be met:

- units owned by the single entity represent no more than 49% of the units;
- evidence is required that the single entity is marketing units for sale to further reduce single-entity ownership, with the goal of reducing the concentration to 20% or less o the project units;
- the single entity is current on all HOA assessments; and
- there are no pending or active special assessments in the project.

Projects in Need of Critical Repairs

Projects in need of critical repairs are those needing repairs or replacements that significantly impact the safety, soundness, structural integrity or habitability of the project's building(s), or the financial viability or marketability of the project. Critical repairs include conditions such as:

- material deficiencies, which if left uncorrected, have the potential to result in or contribute to critical element or system failure within one year;
- any mold, water intrusions or potentially damaging leaks to the project's building(s);
- advanced physical deterioration;
- any project that failed to pass state, county, or other jurisdictional mandatory inspections or certifications specific to structural safety, soundness, and habitability; or
- any unfunded repairs costing more than $10,000 per unit that should be undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through a special assessment).

Examples of some items to consider include, but are not limited to, sea walls, elevators, waterproofing, stairwells, balconies, foundation, electrical systems, parking structures or other load-bearing structures.

If damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the project, then these requirements do not apply.

Routine repairs are not considered to be critical and include work that is:

- preventative in nature or part of normal capital replacements (for example, focused on keeping the project fully functioning and serviceable); and
- accomplished within the project's normal operating budget or through special assessments that are within guidelines.

A project with an evacuation order due to an unsafe condition, either for a partial or total evacuation of the project's building(s), is ineligible until the unsafe condition has been remediated and the building(s) is deemed safe for occupancy.

Special Assessments

Special assessments may be current or planned. Lenders must obtain and review the following information for each special assessment to determine if it addresses a critical repair:

- what is the purpose of the special assessment,
- when was the special assessment approved and is it planned (approved by the unit owners, but not yet initiated by the board) or already being executed,
- what was the original amount of the special assessment and the remaining amount to be collected, and
- when is the expected date the special assessment will be paid in full.

If the special assessment is associated with a critical repair and the issue is not remediated, the project is ineligible.

Inspection Reports

If a structural and/or mechanical inspection was completed within 3 years of the lender's project review date, the lender must obtain and review the inspection report. The report cannot indicate that any critical repairs are needed, no evacuation orders are in effect, and no regulatory actions are required.

If the inspection report indicates there are unaddressed critical repairs, the project is ineligible until the required repairs have been completed and documented accordingly. The lender must review an engineer's report or substantially similar document to determine if the repairs completed have resolved the safety, soundness, structural integrity, or habitability concerns of the project.

Documentation

Lenders may need to review a combination of documents to determine if a project meets Fannie Mae's physical condition requirements. Lenders are responsible for determining which documents are needed to ensure compliance with the requirements of this Guide. Some examples of this documentation include, but are not limited to:

- HOA board meeting minutes,
- engineer report(s),
- structural and/or mechanical inspection reports,
- reserve studies,
- a list of necessary repairs provided by the HOA or the project's management company,
- a list of special assessments provided by the HOA or the project's management company, and
- other substantially similar documentation.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-06	July 05, 2023
Announcement SEL-2020-06	October 07, 2020
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2018-01	January 30, 2018

B4-2.1-04, Environmental Hazard Assessments (06/03/2020)

Introduction

This topic contains information on environmental hazard assessments, including:

- Overview
- Types of Environmental Hazard Assessments
- Acceptability of Consultants
- Phase I Environmental Hazard Assessment
- Phase II Environmental Hazard Assessment Description
- Who Should Complete the Phase II Environmental Hazard Assessment
- Phase II Environmental Hazard Assessment Report Forms and Requirements
- Kinds of Testing or Sampling Under Phase II Environmental Hazard Assessments
- Results of an Environmental Hazard Assessment

Overview

An environmental hazard assessment is required for condo and co-op projects if an environmental problem is identified by the lender through performance of its project underwriting or due diligence. If environmental problems are identified, the problems must be determined to be acceptable. Lenders should keep a copy of this assessment in the project review file.

Types of Environmental Hazard Assessments

The table below describes two types of environmental hazard assessments.

Type	Performed by	Description
Phase I assessment (see E-2-02, Suggested Format for Phase I Environmental Hazard Assessments)	the lender or by someone employed by the lender	gathers information from various sources to evaluate the environmental soundness of the project.
Phase II assessment	a qualified environmental consultant	when required • Phase I assessment identifies problems or • Phase I assessment is inconclusive with regard to any particular hazard.

Acceptability of Consultants

Fannie Mae reserves the right to notify lenders that a particular consultant is no longer acceptable. Fannie Mae also reserves the right to refuse to accept, at any time, any future environmental assessment, report, warranty, or certification from individual consultants, specific consulting firms, or specific branch offices of consulting firms.

Phase I Environmental Hazard Assessment

A Phase I assessment enables lenders to quickly determine whether adequate information exists to evaluate the environmental status of a property. A Phase I assessment is principally a screening process that focuses on reviewing the available documentation, interviewing people who are knowledgeable about the site operations, and inspecting the site, the building, and adjoining properties. Fannie Mae does not require a specific form for a Phase I assessment.

Any report that is thorough and professionally prepared will be acceptable. For a suggested format, see E-2-02, Suggested Format for Phase I Environmental Hazard Assessments.

Phase II Environmental Hazard Assessment Description

A Phase II assessment provides a more detailed review of the site. It includes specific physical sampling for each hazard that was not acceptable under the Phase I assessment, as well as a review of historical records. It determines the presence or absence of specific environmental liabilities (such as asbestos or leaking underground storage tanks) or quantifies the extent of an observed or suspected environmental liability (such as soil or groundwater contamination).

Who Should Complete the Phase II Environmental Hazard Assessment

The specialized nature of the investigations conducted under a Phase II assessment requires the knowledge and experience of a qualified consultant.

Lenders must use care in choosing firms to perform environmental hazard assessments. Lenders should confirm that the consultant it plans to use is not affiliated with the buyer or seller of the property or a firm engaged in a business that might present a conflict of interest. Lenders should also evaluate whether the consulting firm's personnel have adequate and appropriate education and training to carry out the required duties.

Phase II Environmental Hazard Assessment Report Forms and Requirements

Fannie Mae does not specify an exact format for the consultant's report. Any report that is thorough and professionally prepared will be acceptable.

The table below provides the requirements for the Phase II Environmental Assessment Report.

✓	**The consultant's report for a Phase II environmental hazard assessment report must**
	include a full description of the sampling procedures
	include the laboratory results
	include the consultant's recommendations
	follow all regulatory standards and good management practices at all times, especially when physical sampling and laboratory analysis are involved
	include a certification in the report that: • the assessment was performed diligently and in accordance with all regulatory and good management standards; and • to the best of the consultant's knowledge, the results are complete and accurate
	include the signature of an officer of the consulting firm that conducted the work

Kinds of Testing or Sampling Under Phase II Environmental Hazard Assessments

Examples of the kind of testing or sampling that occur under a Phase II assessment include but are not limited to the following:

- investigating the status of any enforcement actions related to neighboring properties under the Superfund or Resource, Conservation, and Recovery Acts;
- testing for underground storage leaks;
- sampling and analyzing the soil;
- sampling and analyzing the groundwater;
- testing soil or facilities that are suspected as being contaminated by polychlorinated biphenyls; and
- sampling and analyzing bulk asbestos and developing related abatement and maintenance programs, if necessary.

Results of an Environmental Hazard Assessment

Lenders must evaluate the results of the assessment and determine if the conditions are acceptable to be remediated. Refer to B4-2.1-05, Unacceptable Environmental Hazards and B4-2.1-06, Remedial Actions for Environmental Hazard Assessments Below Standards.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-03	June 03, 2020

B4-2.1-05, Unacceptable Environmental Hazards (06/03/2020)

Introduction

This topic contains information on unacceptable environmental hazards, including:

- Overview
- Unacceptable Environmental Hazards

Overview

The existence of one or more unacceptable environmental hazards generally will result in a project being ineligible. In addition, some properties that fail to meet a particular standard may be corrected through remedial action. See B4-2.1-06, Remedial Actions for Environmental Hazard Assessments Below Standards.

Unacceptable Environmental Hazards

The table below describes examples of unacceptable environmental hazards; however, this list is not exhaustive.

✓	**Examples of Unacceptable Environmental Hazards**
	a property that is (or has been) used as a landfill or other solid, hazardous, or municipal waste disposal site
	a property that is (or has been) used for activity related to the storage of oil, hazardous waste, or other toxic substances—except that the property may have been used for the storage of small quantities of hazardous substances that are generally recognized as appropriate for residential uses and maintenance of the property
	a property that is the subject of outstanding environmental or public health litigation or administrative action from private parties or public officials
	a high-risk neighboring property that has evidence of hazardous waste spills or soil or groundwater contamination on or around its site
	a property that has documented soil or groundwater contamination and/or a documented tank leak that is leaking at more than 0.05 gallons per hour (which is the National Fire Protection Association’s standard)
	a property with soil sampling that has values for metal in excess of the following concentration limits in parts per million (ppm): • chromium: 100 ppm • arsenic: 20 ppm • zinc: 350 ppm • cadmium: 3 ppm • lead: 100 ppm • nickel: 100 ppm • copper: 170 ppm • selenium: 20 ppm
	a property that is contaminated from polychlorinated biphenyls (PCBs)

✓	Examples of Unacceptable Environmental Hazards
	a property with soil sampling that has values for other organic materials in excess of the following concentration limits in parts per million (ppm): • total volatile organics: 1 ppm • total hydrocarbons: 100 ppm • total petroleum hydrocarbons: 100 ppm
	a property with groundwater sampling that has values for other organic materials in excess of the following concentration limits in parts per million: • total organics (volatiles and base neutrals): 0.10 ppm • total petroleum hydrocarbons: 1.00 ppm
	a property with groundwater sampling that has values for metals in excess of the following concentration limits in parts per million: • arsenic: 0.05 ppm • lead: 0.05 ppm • boron: 1.00 ppm • mercury: 0.002 ppm • cadmium: 0.01 ppm • selenium: 0.01 ppm • chromium: 0.05 ppm • silver: 0.05 ppm
	a property with high radon levels (e.g., above four picocuries per liter) that can be corrected only through large capital improvements or extensive ongoing maintenance programs that are beyond the financial or technical abilities of the HOA or co-op corporation for the project
	a property that has conditions representing material violations of applicable local, state, or federal environmental or public health statutes and laws
	a property that is contaminated by friable asbestos-containing materials

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-03	June 03, 2020

B4-2.1-06, Remedial Actions for Environmental Hazard Assessments Below Standards (06/03/2020)

Introduction

This topic contains information on remedial actions for environmental hazard assessments that are below standards, including:

Background

When an environmental hazard has been fully remediated, the hazard no longer poses any risks for future use of the land or structures or the need for ongoing activities to ensure human health and safety. Some hazards result in ongoing risks that require continual mitigation strategies to minimize potential harm. The environmental hazard is considered mitigated when those strategies sufficiently minimize the current and future risks to human health and safety.

If the hazard will never be fully remediated but the impacts have been sufficiently mitigated to satisfy applicable regulatory standards, the site may be deemed suitable and safe for residential use. The lender has the delegation to review the environmental hazard and its mitigation plan to determine if the project meets Fannie Mae’s requirements.

Remedial Actions for Environmental Hazard Assessments Below Standards

Properties that fail to meet a particular standard may be corrected through remedial actions and then retested. Remedial actions must be undertaken with the advice and written endorsement of a qualified environmental consultant. All remedial actions must be taken in accordance with all regulatory and good management standards.

Typically, lenders must confirm the completion and effectiveness of remedial actions based on the following conditions:

- A qualified environmental consultant states in writing that remedial work needed to make the property eligible under the environmental standards can be completed within 90 days.
- The project's developer or sponsor signs a contract with a qualified firm to perform the remedial work within 90 days.

The lender must warrant that the job has been satisfactorily completed and the property meets Fannie Mae's environmental eligibility standards.

If the property is not remediated at the time of project approval, the project developer or sponsor must provide a performance escrow equal to 150% of the gross contract amount to ensure the completion of the remedial work. Loans securing units in the project cannot be sold to Fannie Mae before completion of the remediation.

"No Further Action" Notices

Some jurisdictions or government agencies will issue a "no further action" notice (or letter) to alert the public that all available remediation steps for an environment hazard have been completed. A "no further action" status for a specific environmental hazard may indicate that

- the hazard has been fully remediated and the site is suitable for residential development,
- all applicable remediation actions have been taken but the site is not suitable for any type of development, or
- other variations between these two opposing outcomes.

Due to the variation of what a "no further action" status means, lenders cannot rely solely on that status to determine if the environmental hazard has been sufficiently resolved. For the project to meet Fannie Mae's requirements, lenders must determine if the specific "no further action" condition has been sufficiently resolved.

Lenders must follow Fannie Mae's appraisal and notification requirements for environmental hazards in B4-1.4-08, Environmental Hazards Appraisal Requirements, any time the subject property is impacted by an environmental hazard.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-03	June 03, 2020

B4-2.2-01, Limited Review Process (07/05/2023)

Introduction

This topic contains information on the Limited Review process performed by lenders, including:

Unit and Project Type Eligible for Limited Review

To be eligible for a Limited Review, the unit securing the mortgage must be an attached unit in an established condo project.

Transactions Eligible for a Limited Review

The following table describes the transactions that are eligible for a Limited Review.

Limited Review Eligible Transactions -Attached Units in Established Condo Projects (For Projects Outside of Florida)	
Occupancy Type	**Maximum LTV, CLTV, and HCLTV Ratios**
Principal residence	90%
Second home	75%
Investment property	75%

Attached units in established projects located in Florida are subject to more restrictive LTV ratio requirements under the Limited Review process. See B4-2.2-04, Geographic-Specific Condo Project Considerations, for additional information.

Limited Review Eligibility Requirements

In completing a Limited Review, the lender must ensure that the project and subject unit meet the eligibility requirements described in the following table.

✓	**Limited Review Eligibility Requirements**
	The project meets *Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project* described in B4-2.1-01, General Information on Project Standards.
	The project is not an ineligible project. (See B4-2.1-03, Ineligible Projects).
	The project does not consist of manufactured homes. **Note**: Manufactured housing projects require a Fannie Mae PERS review or a Full Review.
	No more than 15% of the total number of units in the project are 60 days or more past due in the payment of each special assessment.

These requirements apply to both DU loan casefiles and manually underwritten loans.

If the project and loan transaction are eligible for and meet all of the eligibility requirements of the Limited Review process, the lender is not required to validate that the project also meets the eligibility requirements of another project review type. However, if the LTV, CLTV, or HCLTV ratios exceed the limits above, or in the event the lender becomes aware of a circumstance that would cause the project or transaction to be ineligible under a Limited Review, the lender must use one of the other project review methods to determine project eligibility and the project must meet all of the eligibility requirements of that selected alternate project review type.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	**Issue Date**
Announcement SEL-2023-06	July 05, 2023
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2018-01	January 30, 2018

B4-2.2-02, Full Review Process (07/05/2023)

Introduction

This topic contains information on general eligibility requirements for the Full Review process, including:

Overview

The Full Review process is a method for the review of new and established condo projects, co-op projects, and certain manufactured home projects. Lenders performing a Full Review must ensure that the project meets all applicable eligibility requirements.

Unit and Project Types Eligible for Full Review

A Full Review may be performed when the unit securing the loan is an attached unit located in one of the following project types:

- an established condo project, or
- a new or newly converted condo project.

A Full Review may also be performed when the property securing the loan is a manufactured home in an established condo project that is not subject to a community land trust, deed restriction leasehold estate, or shared equity arrangement.

These projects may also be reviewed by Fannie Mae through the PERS process (see B4-2.2-06, Project Eligibility Review Service (PERS)).

Full Review requirements for units in co-op projects are addressed in B4-2.3-02, Co-op Project Eligibility.

Condo Project Manager (CPM)

Lenders must use CPM to assist in their Full Review of a condo project (except for projects containing manufactured homes). CPM is a Web-based tool designed to facilitate the lender's review of the project to determine if it meets Fannie Mae's project eligibility requirements. The lender must document the loan file with the CPM decision by including the unexpired CPM Certification in the file.

CPM certifications are based solely on the data that the lender enters into CPM. The lender is responsible for reviewing the applicable project documentation to obtain the information needed to complete the project review and enter the data into CPM. The lender is also responsible for ensuring that all data entered into CPM is correct and that the project meets all applicable Fannie Mae eligibility requirements.

CPM is available on Fannie Mae's website.

CPM Status Designations

The table below describes the status designations that are available in CPM for each project.

Status Designation	**Definition**
Certified by Lender	Loans in the project are eligible for sale by the certifying lender prior to the expiration date.
Approved by Fannie Mae	Project has been approved by Fannie Mae, and loans may be sold with a valid and unexpired approval by any lender. This status may include projects approved through the PERS or other Fannie Mae approval processes.
Conditional Approval	Project has been approved by Fannie Mae through the PERS process subject to certain conditions being met. Loans in this project cannot be sold to Fannie Mae until an Approved by Fannie Mae status has been issued.
No Fannie Mae Review	Lender can certify the project or subject legal phase based on the *Selling Guide* requirements.
Unavailable	Project has been determined by Fannie Mae to be ineligible. Loans for units in this project cannot be sold to Fannie Mae.
Guide Ineligible	Based on information entered in CPM by the lender, loans in this project are not eligible for sale to Fannie Mae.

Status Designation	Definition
Incomplete Certification	Project has been entered into CPM, but the lender's certification process has not been completed. The required information must be entered into CPM for the lender to determine the project's eligibility.

CPM Delivery Restrictions Notifications

Project transaction eligibility or other loan-level restrictions will display in CPM. When CPM displays a delivery restriction for a specific project, lenders may only sell loans that comply with the stated restrictions.

For example, loans in some projects may be limited to certain occupancy types (such as principal residences only, or principal residences and second homes) or there may be limits on the LTV ratios.

Additional Obligations of the Lender for Projects Approved by Fannie Mae

If a lender becomes aware of any information that could impact the eligibility status reflected in CPM (such as, significant deferred maintenance or major litigation), the lender must notify the CPM Management team (see E-1-02, List of Contacts) with the relevant data and information. Fannie Mae will evaluate the new information and its impact on eligibility. Before selling a loan secured by a unit in such a project, the lender must confirm that the project retains its approved status. Notification must occur as soon as practicable but no later than five business days after becoming aware of such information.

Fannie Mae reserves the right to change a project eligibility status designation if information acquired after approval or certification has an impact on a previously issued eligibility determination.

> **Note**: Lenders are responsible for verifying and documenting that the project meets the applicable insurance requirements described in *Chapters B7-3 and B7-4*. Fannie Mae does not review insurance policies as part of the review process.

Full Review Eligibility Requirements

When determining the eligibility of a condo project on the basis of a Full Review, lenders must ensure the condo project meets the eligibility requirements described in the following table.

✓	Full Review Eligibility Requirements
	The project meets the *Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project* described in B4-2.1-01, General Information on Project Standards.
	The project must not be an ineligible project as described in B4-2.1-03, Ineligible Projects.
	No more than 15% of the total units in a project are 60 days or more past due on common expense assessments (also known as HOA fees). For example, a 100–unit project may not have more than 15 units that are 60 days or more past due. This ratio is calculated by dividing the number of units with common expense assessments that are past due by 60 or more days by the total number of units in the project.
	No more than 15% of the total units in a project are 60 days or more past due in the payment of each special assessment.

✓	Full Review Eligibility Requirements
	Lenders must review the HOA projected budget to determine that it • is adequate (that is, it includes allocations for line items pertinent to the type of condo project), and • provides for the funding of replacement reserves for capital expenditures and deferred maintenance that is at least 10% of the budget. To determine whether the association has a minimum annual budgeted replacement reserve allocation of 10%, the lender must divide the annual budgeted replacement reserve allocation by the association's annual budgeted assessment income (which includes regular common expense fees). The following types of income may be excluded from the reserve calculation: • incidental income on which the project does not rely for ongoing operations, maintenance, or capital improvements; • income collected for utilities that would typically be paid by individual unit owners, such as cable TV or Internet access; • income allocated to reserve accounts; and • special assessment income. The lender may use a reserve study in lieu of calculating the replacement reserve of 10% provided the following conditions are met: • the lender obtains a copy of an acceptable reserve study and retains the study and the lender's analysis of the study in the project approval file, • the study demonstrates that the project has adequate funded reserves that provide financial protection for the project equivalent to Fannie Mae's standard reserve requirements, • the study demonstrates that the project's funded reserves meet or exceed the recommendations included in the reserve study, and • the study meets Fannie Mae's requirements for replacement reserve studies listed at the end of this section.
	For projects in which the units are not separately metered for utilities, the lender must • determine that having multiple units on a single meter is common and customary in the local market where the project is located, and • confirm that the project budget includes adequate funding for utility payments.
	The project must be located on contiguous parcels of land. It is acceptable for a project to be divided by public or private streets.
	The structures within the project must be within a reasonable distance from each other.

✓	Full Review Eligibility Requirements
	Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.
	Unit owners in the project must have the sole ownership interest in, and rights to the use of the project's facilities, common elements, and limited common elements, except as noted below. Shared amenities are permitted only when two or more HOAs share amenities for the exclusive use of the unit owners. The associations must have an agreement in place governing the arrangement for shared amenities that includes the following: • a description of the shared amenities subject to the arrangement; • a description of the terms under which unit owners in the project may use the shared amenities; • provisions for the funding, management, and upkeep of the shared amenities; and • provisions to resolve conflicts between the associations over the amenities. Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools. The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities—including parking and recreational facilities—may not be subject to a lease between the unit owners or the HOA and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.
	Fannie Mae permits the financing of a single or multiple parking space(s) with the mortgage provided that the parking space(s) and subject unit are included on one deed as evidenced on the legal description in the mortgage. In such cases, the LTV, CLTV, and HCLTV ratios are based on the combined value of the residential unit and the parking space(s).
	Phase I and II environmental hazard assessments are not required for condo projects unless the lender identifies an environmental problem through the performance of its project underwriting or due diligence. In the event that environmental problems are identified, the problems must be acceptable, as described in E-2-02, Suggested Format for Phase I Environmental Hazard Assessments.

✓	Full Review Eligibility Requirements
	For investment property transactions in established projects at least 50% of the total units in the project must be conveyed to principal residence or second home purchasers. This requirement does not apply if the subject mortgage is for a principal residence or second home. Financial institution-owned REO units that are for sale (not rented) are considered owner-occupied when calculating the 50% owner-occupancy ratio requirement.
	If the project was a gut rehabilitation project, all rehabilitation work involved in a condo conversion must have been completed in a professional manner. "Gut rehabilitation" refers to the renovation of a property down to the shell of the structure, including the replacement of all HVAC and electrical components (unless the HVAC and electrical components are up to current code). For a conversion that was legally created during the past three years, the architect's or engineer's report (or functional equivalent), that was originally obtained for the conversion must comment favorably on the structural integrity of the project and the condition and remaining useful life of the major project components, such as the heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc. **Note**: If the project is a newly converted non-gut rehabilitation project with more than four residential units, lenders must submit the project to Fannie Mae for review and approval. See B4-2.2-06, Project Eligibility Review Service (PERS), for additional information.

Additional Requirements - For Condo Projects Consisting of Manufactured Homes

When determining the eligibility of condo project consisting of manufactured homes on the basis of a Full Review, lenders must ensure the property and project meet the eligibility requirements described in the following table.

✓	Additional Requirements for Condo Projects Consisting of Manufactured Home Units
	As described in B4-2.2-06, Project Eligibility Review Service (PERS), certain manufactured home projects must be submitted to PERS. Lenders must perform a pre-PERS submission review to confirm the project meets the Full Review and other requirements.
	The condo project must meet all Full Review requirements, as applicable. CPM should not be used to complete the Full Review because it does not contain all the requirements that apply to condo projects consisting of manufactured homes.

✓	**Additional Requirements for Condo Projects Consisting of Manufactured Home Units**
	The project must not contain campgrounds or other facilities for transient or mobile units.
	The project legal documents must require a provision for land-lease "hold-out" units to be converted into the condo structure upon transfer, sale, or refinance of property. Land lease "hold-out" units are limited to 25% or less of the total units in the project. Land-lease hold-out units are units where the structure is owned by an individual, but the land is leased from the HOA or project sponsor. These units were not converted to condo ownership when the project converted to a condo regime.

Replacement Reserve Studies

Reserve studies may be used to determine the appropriate level of reserves the HOA must maintain to ensure the project's long-term success. Reserve studies will also provide useful information regarding the adequacy of the HOA's current reserve funds and offer recommendations to meet funding goals in the event the HOA has under-reserved for its needs in the past. The lender may review the most current reserve study or a reserve study update provided it has been completed within three years of the date on which the lender approves the project.

Reserve studies must be prepared by an independent third party that has specific expertise in completing reserve studies. This expertise may include any of the following:

- a reserve study professional with reserve study credentials,
- a construction engineer,
- a certified public accountant who specializes in reserve studies, or
- any professional with demonstrated knowledge of and experience in completing reserve studies.

While Fannie Mae does not require that a standard format be used for the reserve study, the following items must be addressed:

- all major components and elements of the project's common areas for which repair, maintenance, or replacement is expected;
- the condition and remaining useful life of each major component;
- an estimate of the cost of repair, replacement, restoration, or maintenance of major components;
- an estimate of the total annual contributions required to defray costs (minus the existing reserves funded for this purpose), including inflation;
- an analysis of existing funded reserves; and
- a suggested reserve funding plan.

> **Note**: Individual states may have various statutes concerning the use and content of reserve studies. Fannie Mae requires that a reserve study used by the lender in its analysis meet or exceed

requirements set forth in relevant state statutes.

Recent Related Announcements

The table below provides references to the Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-06	July 05, 2023
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2022-02	March 02, 2022
Announcement SEL-2018-05	June 05, 2018

B4-2.2-03, Full Review: Additional Eligibility Requirements for Units in New and Newly Converted Condo Projects (06/05/2018)

Introduction

This topic contains information on the Full Review of units in new and newly converted condo projects, including:

- Additional Requirements for Units in New and Newly Converted Condo Projects
- Condo Project Legal Document Review Requirements for Units in New or Newly Converted Projects

Additional Requirements for Units in New and Newly Converted Condo Projects

When performing a Full Review of new or newly converted condo projects, lenders must ensure compliance with the following additional requirements.

> **Note:** Projects consisting of units in new or newly converted projects in Florida must be reviewed by Fannie Mae through the PERS process. See B4-2.2-04, Geographic-Specific Condo Project Considerations.

✓	Full Review Requirements – For Units in New or Newly Converted Condo Projects
	The project, or the subject legal phase, must be “substantially complete” unless other completion arrangements have been approved by Fannie Mae through the PERS review process. There may not be more than one legal phase per building. “Substantially complete” means that • a certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or subject phase; and • all the units and buildings in the legal phase in which the unit securing the mortgage is located are complete, subject to the installation of buyer selection items, such as appliances. **Note:** Fannie Mae does not require the installation of typical buyer selection items such as appliances, floor coverings, counter tops, or light fixtures that are common and customary for the market, although buyer selections that involve the modification of a unit floor plan must be complete. Lenders are expected to obtain appropriate documentation to verify that all buyer selection items for the unit being financed are properly installed prior to closing.
	At least 50% of the total units in the project or subject legal phase must have been conveyed or be under contract for sale to principal residence or second home purchasers. • For a specific legal phase or phases in a new project, at least 50% of the total units in the subject legal phase(s), considered together with all prior legal phases, must have been conveyed or be under contract for sale to principal residence or second home purchasers. • For the purposes of this review process, a project consisting of one building cannot have more than one legal phase.
	Individual units in new condo projects must be available for immediate occupancy at the time of loan closing.
	If the project is part of a larger development, and the unit owners are required to pay monthly assessments of more than $50 to a separate master association for that development, lenders must review the overall development plan for the master association to evaluate the acceptability of the project.
	The overall development plan of the project must be reviewed and the following must be acceptable: • consistency of future and existing improvements, • time limitations for expansion, and • reciprocal easements between legal phases.

✓	Full Review Requirements – For Units in New or Newly Converted Condo Projects
	For projects (or the subject legal phase) that are only substantially complete rather than 100% complete, lenders must determine that acceptable completion assurance arrangements that guarantee the future completion of all project facilities, common elements, and limited common elements have been provided. These assurance arrangements may include • cash deposits, • letters of credit, • assignments of certificates of deposit, or • assignments of other assets that can be easily converted to cash. Similar arrangements must be provided to support assurances against construction and structural defects. The assurances must • protect each unit against defects that become apparent within one year from the date of its settlement, and • cover all common facilities for one year from the date on which units that represent at least 60% of the votes in the HOA have been transferred.
	The developer or sponsor should provide for and promote the unit owners' early participation in the management of the project.
	The project must meet the condo project legal document requirements in the following section.

Condo Project Legal Document Review Requirements for Units in New or Newly Converted Projects

The table below provides Fannie Mae's requirements for the review of the condo project's legal documents for units in new and newly converted condo projects containing more than four residential units.

Condo Project Legal Document Review Requirements - For Units in New or Newly Converted Condo Projects	
Limitations on Ability to Sell/Right of First Refusal	Any right of first refusal in the condo project documents will not adversely impact the rights of a mortgagee or its assignee to: • foreclose or take title to a condo unit pursuant to the remedies in the mortgage, • accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor, or • sell or lease a unit acquired by the mortgagee or its assignee.

Condo Project Legal Document Review Requirements - For Units in New or Newly Converted Condo Projects	
Rights of Condo Mortgagees and Guarantors	The project documents must give the mortgagee and guarantor of the mortgage on any unit in a condo project the right to timely written notice of: • any condemnation or casualty loss that affects either a material portion of the project or the unit securing its mortgage; • any 60-day delinquency in the payment of assessments or charges owed by the owner of any unit on which it holds the mortgage; • a lapse, cancellation, or material modification of any insurance policy maintained by the homeowners' association; and • any proposed action that requires the consent of a specified percentage of mortgagees.
First Mortgagee's Rights Confirmed	No provision of the condo project documents gives a condo unit owner or any other party priority over any rights of the first mortgagee of the condo unit pursuant to its mortgage in the case of payment to the unit owner of insurance proceeds or condemnation awards for losses to or a taking of condo units and/or common elements.

Condo Project Legal Document Review Requirements - For Units in New or Newly Converted Condo Projects	
Amendments to Documents	Required provisions related to amendments to project documents are as follow: • The project documents must provide that amendments of a material adverse nature to mortgagees be agreed to by mortgagees that represent at least 51% of the votes of unit estates that are subject to mortgages. • The project documents must provide for any action to terminate the legal status of the project after substantial destruction or condemnation occurs or for other reasons to be agreed to by mortgagees that represent at least 51% of the votes of the unit estates that are subject to mortgages. • The project documents may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 60 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a return receipt requested. Notwithstanding the foregoing, project documents that were recorded prior to August 23, 2007, may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 30 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a return receipt requested.

Recent Related Announcements

The table below provides references to the Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-05	June 05, 2018

B4-2.2-04, Geographic-Specific Condo Project Considerations (03/01/2023)

Introduction

This topic contains information on geographic-specific condo project considerations, including:

- Florida — Attached Units in New and Newly Converted Condo Projects
- Florida — Project Review Maximum LTV Requirements for Attached Units in Established Projects
- Waiver of Project Review Requirements

Florida — Attached Units in New and Newly Converted Condo Projects

Fannie Mae project approval is required for new and newly converted condo projects consisting of attached units located in Florida. To request a Fannie Mae project approval refer to B4-2.2-06, Project Eligibility Review Service (PERS).

Florida — Project Review Maximum LTV Requirements for Attached Units in Established Projects

The following tables describe the maximum LTV ratios that are permitted for the specific project review type for loans secured by units in condo projects located in Florida. Unless noted otherwise, these requirements are based on the LTV ratio of the mortgage loan.

Florida — Attached Units in Established Condo Projects			
	Maximum LTV Ratios[1]		**Maximum LTV, CLTV, and HCLTV Ratios**[2]
	Approved by Fannie Mae	**Lender Full Review (with CPM)**	**Lender Limited Review**
Principal Residence	95% Manual 97% DU		75/90/90%

Florida — Attached Units in Established Condo Projects		
Second Home	90%	70/75/75%
Investor	85%	70/75/75%

Waiver of Project Review Requirements

The above requirements do not apply if the transaction is eligible for a project review waiver. See B4-2.1-02, Waiver of Project Review for additional information.

1 Refer to the *Eligibility Matrix* for the maximum allowable CLTV and HCLTV ratios. (For example, a mortgage loan for a unit in a PERS-approved project can have a CLTV ratio up to 105% if it meets the *Eligibility Matrix* and Community Seconds requirements.)

2 The CLTV and HCLTV ratios in this column align with the maximum CLTV and HCLTV ratios that are permitted for projects outside of Florida, as described in B4-2.2-01, Limited Review Process.

Recent Related Announcements

The table below provides references to the Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2022-02	March 02, 2022
Announcement SEL-2018-05	June 05, 2018

B4-2.2-05, FHA-Approved Condo Review Eligibility (09/04/2018)

Introduction

This topic contains information on FHA-approved condo review eligibility, including:

Overview

Fannie Mae accepts delivery of FHA mortgage loans in FHA-approved condo projects that appear on the FHA-approved condo list. For conventional mortgage loans, Fannie Mae will accept delivery of mortgages in established projects on the FHA-approved list provided the approval was completed by FHA HUD Review and Approval Process (HRAP) rather than through an FHA Direct Endorsement Lender Review and Approval Process (DELRAP). FHA condo project approval is not acceptable for conventional mortgage loans secured by units in new or newly converted condo projects.

Lenders may search for FHA-approved condo projects by location, name, or project status online at HUD.gov or through CPM.

Lenders must maintain copies of the FHA approval documentation in the loan file.

Project Requirements

For FHA mortgage loans, lenders must ensure that

- the FHA standard conditions have been met for presale, occupancy status, and completion;
- any additional conditions noted by FHA have been met;
- the project is not an ineligible project as defined in B4-2.1-03, Ineligible Projects;
- the project is covered by the required insurance as set forth in Subpart B7-4, Liability and Fidelity/Crime Insurance Requirements for Project Developments; and
- the project is not comprised of manufactured homes.

For conventional mortgage loans, lenders must ensure that

- the project meets Fannie Mae's criteria to be considered an established project;
- the project is not comprised of manufactured homes;
- the project meets the Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project described in B4-2.1-01, General Information on Project Standards;

- the project is not an ineligible project as described in B4-2.1-03, Ineligible Projects; and
- any additional conditions noted by FHA have been met.

Document Retention

When lenders deliver mortgage loans secured by condo units in an FHA-approved project, lenders must retain the documentation as set forth in Document Retention in B4-2.1-01, General Information on Project Standards.

Recent Related Announcements

The table below provides references to the Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-07	September 04, 2018

B4-2.2-06, Project Eligibility Review Service (PERS) (12/15/2021)

Introduction

This topic contains information on Fannie Mae's Project Eligibility Review Service (PERS), including:

- Overview
- Standard PERS Submission Process
- Required Forms for Standard PERS Submission
- Additional Requirements—For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects
- Additional Requirements - For Condo, Co-op, and PUD Projects Comprised of Manufactured Homes
- Streamlined PERS Submission Process—For Established Projects
- Approval Designations
- Availability of Project Information
- Decision Expiration Dates

Overview

PERS is a review method available to lenders to submit new, newly converted, and established projects to Fannie Mae to determine eligibility. Some projects must be submitted to PERS while a PERS submission is optional for other projects, as shown in the table below.

Standard PERS Process	Streamlined PERS Process
Required for: • new condo project consisting of manufactured homes; • co-op project consisting of manufactured homes; • PUD or condo project consisting of single-wide manufactured homes; • newly converted non-gut rehabilitation condo and co-op projects with attached units that contain more than four units; • new and newly converted condo projects consisting of attached units located in Florida; and • limited or shared equity co-op projects, provided the limited or shared equity provisions are designed to preserve or promote access to affordable housing. **Optional for:** • all other new or newly converted condo projects, not listed above.	**Required for:** • established condo or PUD project consisting of manufactured homes that are subject to a community land trust, deed restriction, leasehold estate, or shared equity arrangement. **Optional for:** • established condo projects.

Standard PERS Submission Process

The standard PERS submission process is described below:

Step	Action
1.	The lender performs a review to determine if the project satisfies all applicable Fannie Mae project eligibility and underwriting requirements of the Full Review process prior to submission to PERS. See below for additional lender pre-PERS submission review requirements • for newly converted non-gut rehabilitation condo projects, and • for projects consisting of manufactured homes.

Step	Action
2.	The lender completes a project submission package, that includes: • *Project Eligibility Review Service Document Checklist* (Form 1030) for condo projects or *Project Eligibility Review Service Document Checklist - Co-op Projects* (Form 1078), for co-op projects, and • *Application for Project Approval* (Form 1026). See below for additional forms that may be required.
3.	The condo project's legal documents must comply with the Fannie Mae's requirements listed in B4-2.2-03, Full Review: Additional Eligibility Requirements for Units in New and Newly Converted Condo Projects. • A qualified attorney engaged by the lender must review the condo project legal documents and determine that the documents are in compliance with Fannie Mae's requirements. • This determination must be documented by the attorney in writing but need not rise to the level of a formal, written legal opinion. The attorney may be the same person who prepared the legal documents or an attorney employed by the lender, but they cannot be an employee, principal, or officer of the developer or sponsor of the project. • The lender must complete the *Warranty of Condominium Project Legal Documents* (Form 1054) and attach the attorney review as part of the PERS submission process.
4.	The lender submits the complete project package, including all relevant supporting documentation, via email using the PERS Project Submission mailbox. See E-1-02, List of Contacts.
5.	A member of the Project Standards team reviews the package to determine if the project is eligible for approval.
6.	Upon completion of the review, Fannie Mae issues its decision to the lender via email and posts approved projects on its website. See Condo, Co-op, and Planned Unit Development (PUD) Eligibility for approved projects listed for each state, the District of Columbia, and the U.S. Virgin Islands.
7.	Fannie Mae informs the lender of the specific review fee assessed for each PERS submission. Lenders are billed for PERS review fees in their “Monthly Technology Invoice.” For fees, see the Project Eligibility Review Service (PERS) Overview on Fannie Mae's website.

Required Forms for Standard PERS Submission

The forms shown below are required for a standard PERS submission.

Form	Title	Description
1026	*Application for Project Approval*	Requires certification that the lender has “underwritten” the project; includes non-residential space, common areas, sales plan, construction warranty, budget, builder/developer information, status of construction, environmental issues, resale restrictions, phasing, project management.
1029	*Warranty of Project Presales*	Requires lender certification of sales and presales information.
1030	*Project Eligibility Review Service Document Checklist*	Checklist confirming all required condo documents have been provided (see below).
1051	*Project Development/Master Association Plan*	Requires lender certification of submitted information; includes master association and sub-association description and structure, common areas, title policy, master association budget, “as-built” survey or master plan.
1054	*Warranty of Condominium Project Legal Documents*	Requires lender certification of compliance with laws and Fannie Mae legal requirements.
1071	*Statement of Insurance and Fidelity Coverage*	Requires lender certification of all insurance requirements; addresses specific insurance types and clauses, and requires the lender to obtain and review all policies.
1073	*Individual Condominium Unit Appraisal*	Individual condominium appraisal report.
1073A	*Analysis of Annual Income and Expenses – Operating Budget*	Requires lender certification that the operating budget has been analyzed; detailed operating budget information to be completed by HOA and lender.

Form	Title	Description
1078	*Project Eligibility Review Service Document Checklist - Co-op Projects*	Checklist confirming all required co-op documents have been provided (see below).
1079	*Limited or Shared Equity Co-op Worksheet*	Requires information for certain co-op projects.
1081	*Final Certification of Substantial Project Completion*	Lender certification that project is substantially complete; lender to document any exceptions or uncompleted.

Additional Requirements—For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects

A non-gut rehabilitation refers to the renovation of a property that does not involve structural or functional changes, such as the replacement of all HVAC and electrical components. Rather, the rehabilitation might include, for example, the replacement of appliances and carpeting.

In order for a newly converted non-gut rehabilitation condo or co-op project to receive project approval through the standard PERS process, the project must comply with the following requirements.

✓	**Lender Pre-PERS Submission Review Requirements – For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects**
	The project cannot be an ineligible project in accordance with B4-2.1-03, Ineligible Projects.
	For condo projects—The condo project must comply with all requirements of the Full Review (as provided in B4-2.2-02, Full Review Process and B4-2.2-03, Full Review: Additional Eligibility Requirements for Units in New and Newly Converted Condo Projects). For co-op projects—The co-op project must comply with all requirements for co-op projects (as provided in B4-2.3-02, Co-op Project Eligibility, B4-2.3-03, Legal Requirements for Co-op Projects, and B4-2.3-05, Geographic-Specific Co-op Project Considerations).
	All rehabilitation work involved in the condo or co-op conversion must have been completed in a professional manner.

✓	**Lender Pre-PERS Submission Review Requirements – For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects**
	A current reserve study prepared by a qualified, independent professional company, accompanied by an engineer's report, or functional equivalent, must comment favorably on the structural integrity of the project and the remaining useful life of the major project components.
	The project budget must contain line items for • reserves to adequately support the costs identified in the reserve study, and • a utility contingency of at least 10% of the previous year's utility costs if the utilities are not separately metered.
	Funds to cover the total cost of any items identified in the reserve study or engineer's report that need to be replaced within five years from the date of the study must be deposited in the reserve account of the HOA or of the co-op corporation, in addition to the amount stated immediately above.
	The developer must provide a detailed description of the work proposed or already completed in order for the project units to be ready for sale.
	Generally, at least 50% of the total condo units or co-op stocks or shares in the project or subject legal phase must have been conveyed or be under contract for purchase to principal residence or second home purchasers.
	Up to 30% of the units (or of stocks or shares for co-ops) in projects that are subject to rent regulations, which protect tenants from eviction (if they have chosen not to purchase their unit), will be permitted.
	Phasing of projects (single building or multiple buildings) will be considered on a project basis.
	The project sponsor or developer must provide a comprehensive sales and marketing strategy.
	All projects are subject to a site inspection.

Additional Requirements - For Condo, Co-op, and PUD Projects Comprised of Manufactured Homes

For a condo, co-op, or PUD project comprised of manufactured homes to receive project approval through the standard PERS process, the project must comply with the following requirements.

✓	**Lender Pre-PERS Submission Review Requirements - For Projects Consisting of Manufactured Homes**
	Review all aspects of the project to determine that it satisfies Fannie Mae eligibility requirements as stated in B4-2.1-01, General Information on Project Standards.
	Review all aspects of the project to determine that it meets all eligibility requirements for the Full Review for condos or co-ops, requirements for PUDs, and any other applicable requirements.
	Review the manufactured housing unit to confirm that it meets all requirements of B4-1.4-01, Factory-Built Housing: Manufactured Housing.
	Perform a thorough underwriting analysis of the project and provide the conclusion of such analysis.

Streamlined PERS Submission Process—For Established Projects

The streamlined PERS submission process for established condo projects is as follows:

Step	Action
1.	The lender performs a basic review to determine if the project satisfies all applicable Fannie Mae project eligibility and underwriting requirements prior to submission to PERS.
2.	The lender completes a project submission package, which includes: • *Application for Approval of Established Project* (Form 1091). • *Condominium Project Questionnaire* (Form 1076), or a substantially similar form, completed within the past 180 days. • An appraisal report for a representative unit in the project. This report must be prepared within 120 days of the PERS application, and include photographs of the project, private streets, recreational amenities, parking, commercial space, and common areas. • Current fiscal year’s approved operating budget that reflects homeowners’ association income and expenses. • Reserve study completed within the past 24 months (only required for projects that are not funding a minimum of a 10% dedicated expense allocation in the budget to a replacement reserve for the future repair/replacement of the project’s major components).

Step	Action
3.	The lender submits the complete project package, including all relevant supporting documentation, via email using the PERS Project Submission mailbox. See E-1-02, List of Contacts.
4.	A member of the Project Standards team reviews the package to determine if the project is eligible for approval.
5.	Upon completion of the review, Fannie Mae issues its decision to the lender via email and posts approved projects on its website. See Condo, Co-op, and Planned Unit Development (PUD) Eligibility for approved projects listed for each state, the District of Columbia, and the U.S. Virgin Islands.
6.	Fannie Mae informs the lender of the specific review fee assessed for each PERS submission. Lenders are billed for PERS review fees in their “Monthly Technology Invoice.” For fees, see the Project Eligibility Review Service (PERS) Overview on Fannie Mae's website.

Fannie Mae reserves the right to request additional documentation it deems necessary to conduct a full review of the project.

Approval Designations

Upon completion of its review, Fannie Mae will issue one of the following project approval designations:

- Conditional Project Approval,
- Final Project Approval,
- Ineligible, or
- Suspension of the Application.

Loans delivered with a PERS review must have a valid Fannie Mae Final Project Approval prior to delivery. Loans may not be delivered under the Conditional Project Approval, Ineligible, or Suspension of the Application designations.

Availability of Project Information

Lenders submitting projects to PERS must ensure that the developer, builder, management company, and/or HOA will provide project information to Fannie Mae as and when requested without charge. In the event the requested information is not provided, Fannie Mae reserves the right to withdraw the PERS approval.

Decision Expiration Dates

Conditional Project Approval: expires 9 months from the date of issue.

Final Project Approval: expires 18 months from the date of issue.

> **Note**: Fannie Mae, in some instances and in its sole discretion, may set a shorter or longer expiration term.

For information on requesting an extension, see the Project Eligibility Review Service (PERS) Overview on Fannie Mae's website.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-11	December 15, 2021
Announcement SEL-2021-03	April 07, 2021
Announcement SEL-2018-05	June 05, 2018

B4-2.2-07, Projects with Special Considerations and Project Eligibility Waivers (11/10/2014)

Introduction

This topic contains information on projects with special considerations and project eligibility waivers, including:

- Projects with Special Considerations
- Project Eligibility Waivers

Projects with Special Considerations

Lenders may identify projects that merit special consideration even though the project characteristics do not meet all of the Fannie Mae eligibility requirements. In these instances, lenders can contact the Fannie Mae Project Standards team to discuss the possibility of accepting such projects. Exceptions to Fannie Mae eligibility and underwriting requirements are considered on a project-by-project basis.

Project Eligibility Waivers

If the lender believes that a specific eligibility requirement should be waived for a particular project with respect to a single loan, then the lender must

- first enter the project into CPM before requesting a waiver through the Credit Variance Administration System (CVAS), and
- request a waiver from Fannie Mae through CVAS.

Fannie Mae's Project Standards team will determine if a single loan project eligibility waiver is warranted. Fannie Mae charges a nonrefundable $200 review fee for each waiver request. A higher review fee may be charged based on the complexity of the waiver review.

> **Note**: Project eligibility waivers are typically issued only for established projects, though Fannie Mae at its sole discretion reserves the right to allow this type of waiver for a unit in a new project on a case-by-case basis. New or newly converted projects must be reviewed for eligibility through an eligible lender review process or by Fannie Mae through the PERS submission process. Lenders must not request a project eligibility waiver for a unit in a new project to circumvent the required review for new projects.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Section B4-2.3, PUD and Co-op Eligibility Requirements

B4-2.3-01, Eligibility Requirements for Units in PUD Projects (03/03/2021)

Introduction

This topic contains information on PUD projects, including:

PUD Project Requirements

For a project to qualify as a PUD, all of the following requirements must be met:

- each unit owner's membership in the HOA must be automatic and nonseverable,
- the payment of assessments related to the unit must be mandatory,
- common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners, and
- the subject unit must not be part of a condo or co-op project.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in projects or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects under Fannie Mae's policies. These projects

- have no common property and improvements,
- do not require the establishment of and membership in an HOA, and
- do not require the payment of assessments.

Fannie Mae classifies PUD projects as either

- Type E—established PUD projects in which the developer has turned over voting control of the HOA to the unit purchasers.
- Type F—new PUD projects in which the developer has not turned over voting control of the HOA to the unit purchasers.

PUD projects are not eligible for review using the PERS process, unless they contain single-wide manufactured housing, which require a PERS submission.

Eligibility Requirements for Units in PUD Projects

Lenders must determine that the PUD project and subject unit meet the requirements described in Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project in B4-2.1-01, General Information on Project Standards.

> **Note**: Any unit located in a condo or co-op project within a larger PUD project or master association must meet the applicable requirements for condo or co-op projects.

Recent Related Announcements

The table below provides references to the Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-02	March 03, 2021
Announcement SEL-2018-05	June 05, 2018

B4-2.3-02, Co-op Project Eligibility (07/05/2023)

Introduction

This topic contains information on co-op project eligibility, including:

- Co-op Project Eligibility Overview
- Request for Co-op Project Information
- Eligibility Requirements for Co-op Projects

Co-op Project Eligibility Overview

Fannie Mae purchases or securitizes co-op share loans for units in co-op projects from lenders specially approved to sell such loans to Fannie Mae. Lenders must determine the acceptability of a co-op project, unless the project is comprised of manufactured homes or is a project that is a newly converted non-gut rehabilitation of a co-op project. Such projects must be submitted via the Project Eligibility Review Service (PERS) to Fannie Mae for review.

The lack of available co-op project data and the inconsistent reporting of co-op project information can be a barrier to obtaining affordable financing for co-op housing. Lenders are responsible for determining the most appropriate method for obtaining information about co-op projects and the accuracy of the information they obtain.

For additional information, see:

- A2-1-01, Contractual Obligations for Sellers/Servicers,
- B4-2.3-04, Loan Eligibility for Co-op Share Loans,
- B4-2.2-06, Project Eligibility Review Service (PERS),
- B4-2.1-01, General Information on Project Standards.

Request for Co-op Project Information

The *Request for Cooperative Project Information* (Form 1074) includes the project information that lenders, investors, and mortgage insurers may use in their evaluation of the eligibility of a co-op project, and provides an efficient means of collecting basic project information from co-op project management agents, boards of directors, or sponsors/developers.

Eligibility Requirements for Co-op Projects

The table below provides project eligibility requirements for co-op projects.

✓	**Full Review Eligibility Requirements – For New and Established Co-op Projects**
	In order for a co-op share loan to be eligible for sale, the co-op project in which the secured unit is located must qualify as a cooperative housing corporation under Section 216 of the Internal Revenue Service Code. The lender's loan or project approval file must contain evidence regarding the project's compliance with Section 216. **Note**: If the co-op project does not meet Section 216 requirements, Fannie Mae will not purchase a co-op share loan from within the project.
	The co-op housing project must • be designed principally for residential use; • consist of two or more units; and • be located in an area that has a demonstrated market acceptance for the co-op form of ownership, as reflected by the availability of similar comparable sales for co-op units in the market area.
	The project must be owned in fee simple.
	The lender is responsible for determining that the co-op cooperation holds title to the property of the co-op project, including the dwelling units. A type of co-op project that does not meet these requirements is one in which the borrower, not the co-op corporation, owns their dwelling unit in the project. Co-op share loans in these projects are commonly referred to as "land-home" or "land-lease" co-op projects and require special approval for delivery to Fannie Mae.
	The co-op corporation must have good and marketable title to the property, including the dwelling units and amenities. The project premises must be free and clear of liens and encumbrances in accordance with B7-2-05, Title Exceptions and Impediments.

✓	**Full Review Eligibility Requirements – For New and Established Co-op Projects**
	The blanket project mortgage may be a market-rate FHA-insured mortgage or a conventional mortgage. The blanket mortgage for the project may be a balloon mortgage. The remaining term may not be less than six months. If the balloon mortgage incorporates an adjustable-rate feature, and the remaining term is less than three years but not less than six months, the current interest rate may not be subject to an interest rate adjustment prior to the maturity date. Fannie Mae purchases or securitizes co-op share loans regardless of whether Fannie Mae owns the blanket mortgage. However, if Fannie Mae owns an interest in the blanket co-op project mortgage, the maximum mortgage amount available to the borrower must be reduced by the portion of the unpaid principal balance of the blanket mortgage(s) that is attributable to the subject unit's ownership interest.
	Fannie Mae will not purchase or securitize co-op share loans if the co-op project is an ineligible project type, regardless of the characteristics of the share loan. See B4-2.1-03, Ineligible Projects.
	The project must not be a manufactured housing project, unless the project is approved via the PERS process.
	The project must meet Fannie Mae's insurance requirements, as stated in *Subpart B7, Insurance*.
	Co-op projects may be newly constructed or conversions of existing buildings.

✓	**Full Review Eligibility Requirements – For New and Established Co-op Projects**
	All newly converted non-gut rehabilitation of co-op share projects must be approved through the PERS process. A newly converted non-gut rehabilitation co-op project is defined as follows: • a project for which the building has been recently converted from another use such as, but not limited to, apartment use, hotel building, or warehouse; • the renovation work did not involve structural or functional changes, such as the replacement of all HVAC and electrical components and was limited to cosmetic or design changes such as painting, flooring, and appliances; and, • the project meets the criteria for being a new project because any of the following conditions exist with respect to the status of the project: ∘ fewer than 90% of the stock or shares have been sold to purchasers; ∘ the developer or sponsor is in control of the co-op corporation; ∘ the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a co-op; or ∘ the project is subject to additional phasing or annexation.
	The following newly converted projects may be reviewed by the lender through the standard co-op review process rather than being submitted to PERS: • any non-gut rehabilitation conversion project that was converted at least three years prior to the co-op share loan note date that is considered "newly converted" solely because more than 20% of the stock or shares are owned by the sponsor as described in the single entity ownership provisions in B4-2.3-05, Geographic-Specific Co-op Project Considerations; and • two- to four-unit non-gut rehabilitation conversions.
	All units, common areas, and facilities within the project must be 100% complete. The project cannot be subject to additional phasing or annexation. All construction and rehabilitation for the project must be completed in a professional manner before Fannie Mae purchases or securitizes the share loan, unless the Project Standards Team approves delivery at an earlier date.
	Phase I and II environmental hazard assessments are not required for co-op projects unless the lender identifies an environmental problem through the performance of its project underwriting and due diligence. In the event that environmental problems are identified, the problems must be determined to be acceptable, as described in E-2-02, Suggested Format for Phase I Environmental Hazard Assessments.

✓	**Full Review Eligibility Requirements – For New and Established Co-op Projects**
	Stock, share, or other contractual agreement evidencing ownership, and the accompanying occupancy rights that represent at least 50% of the total number of stock or shares in the co-op corporation and the related occupancy rights of units in the project must have been sold and conveyed (or, for new construction, must be under contract for sale) to principal residence purchasers.
	The project's most recent operating budget, audited financial statements, or corporate tax returns must • be consistent with the nature of the project, • provide for adequate cash flow to service the current debt and operating expenses, and • provide for adequate replacement and operating reserves. If the most recent budget is not available, the lender may rely on a review of the co-op corporation's most recent audited financial statements or corporate tax returns to determine that the financial requirements in this section have been met.
	The project must have a good financial record, with no more than 15% of the owners being more than 60 days past due in the payment of their financial obligations to the co-op corporation. Note: This includes payment of each special assessment.
	If the project is a recipient of subsidies or similar benefits (such as tax or assessment abatements) that will terminate partially or fully within the next three years, the lender must evaluate the impact the expiration of such benefit will have on the project. If the benefit is scheduled to expire within three years from the note date, the lender must include the higher monthly fees in the borrower's monthly liabilities for debt-to-income ratio qualifying purposes.
	The project and share loan documentation must comply with any specific legal requirements established for the state in which the project is located.
	The units in the project must be owned in fee simple.

✓	**Full Review Eligibility Requirements – For New and Established Co-op Projects**
	The co-op corporation must have the sole ownership interest in the project's facilities, common elements, and limited common elements, except as noted below. Shared amenities are permitted only when two or more residential projects share amenities for the exclusive use of the unit owners. The associations or corporations must have an agreement in place governing the arrangement for shared amenities that includes the following: • a description of the shared amenities subject to the arrangement; • a description of the terms under which unit owners in the project may use the shared amenities; • provisions for the funding, management, and upkeep of the shared amenities; and • provisions to resolve conflicts between the residential projects regarding the amenities. Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools. The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities, including parking and recreational facilities, may not be subject to a lease between the unit owners or the co-op corporation and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-06	July 05, 2023
Announcement SEL-2018-07	September 4, 2018

B4-2.3-03, Legal Requirements for Co-op Projects (09/04/2018)

Introduction

This topic contains information on legal requirements for co-op projects, including:

- Amendments to Documents
- Co-op Membership
- Lien Position for Co-op Share Loans
- Prior Co-op Financing
- Assignment of Co-op's Lease/Occupancy Rights
- Co-op Corporation's Recognition Agreement, Responsibilities, and Lender's Rights
- Lender's Rights

Amendments to Documents

The co-op project's documents must provide for the tenant-stockholders to have the right to amend them. In addition, the co-op corporation must be legally bound to notify the holder of a co-op share loan about any proposed material changes to the co-op project with respect to allocation of membership interests, voting rights, insurance coverages, and any other provisions that are for the express benefit of the lender.

Co-op Membership

The project documents must require that the sale or transfer of stock, shares, or membership certificates in the co-op corporation be in compliance with federal and state security disclosure laws. The documents also must require tenant-stockholders to own stock, shares, or a membership certificate, and permit the stock, shares, or membership certificates in the co-op corporation to be pledged and registered.

The project documents must give the tenant-stockholder a right to occupy the unit for a period that extends at least to the maturity date of the share loan, although this right should be subject to the terms and conditions of a proprietary lease or occupancy agreement between the tenant-stockholder and the co-op corporation. The documents also must prohibit the co-op corporation from imposing unreasonable limitations on the tenant-stockholder's ability to sell, transfer, or convey their membership, or to sublease their unit. If the purchaser's right to membership or occupancy is subject to any right of the co-op corporation to give approval, the lender must furnish evidence to clearly show that such approval has been given before Fannie Mae will purchase or securitize the co-op share loan.

Lien Position for Co-op Share Loans

The share loan must be secured by the assignment (in pledge or trust) of the borrower's leasehold estate; a pledge or trust of the corporation stock, shares, or membership certificate; and any other documents that are appropriate under individual state or local laws and practices.

The lender that is financing the share loan must receive an assignment of the proprietary lease, occupancy agreement, or other similar evidence of the right to occupy the unit for all share loans that it delivers to Fannie Mae. The lender must also obtain a stock power, assignment, or other similar document that authorizes the lender to transfer ownership interest in the event of a default. Valid financing statements and assignments of financing statements must be executed and filed, if necessary to perfect Fannie Mae's security interest under the Uniform Commercial Code of the state in which the property is located. Information searches or equivalent evidence of filing financing statements and assignments of financing statements must be obtained and must show that the Fannie Mae co-op share loan is in first-lien position. In those states in which co-op units are considered real property, perfection of the lien must comply with state law applicable to real estate.

The share loan must be a first-lien, except that, where custom dictates to the contrary, Fannie Mae will permit its lien to be subordinate to the co-op corporation's lien against the tenant-stockholder's shares for unpaid assessments that represents the *pro rata share of the corporation's payments for the blanket mortgage, current year's real estate taxes, operating expenses or maintenance fees, and special assessments.*

> **Note:** The *pro rata* share of the project debt that is related to the co-op share loan cannot exceed 35% of the sum of the related *pro rata* share of the project debt and the appraised equity interest value of the shares. Lenders may use a higher ratio (not to exceed 40%) when there are fully documented compensating factors that justify using the higher ratio.

Fannie Mae will also permit its lien to be subordinate to any assignment of rents or maintenance expenses in any mortgage or deed of trust that is secured by the co-op project, or any Regulatory Agreement entered into by the co-op corporation and the Secretary of HUD as a condition for obtaining HUD mortgage insurance.

Prior Co-op Financing

The co-op project must be in compliance with the requirements imposed by the holder of any prior financing for the project. If the blanket mortgage on a project includes a due-on-encumbrance clause and the project is located in a state in which share loans are considered to be an encumbrance on the project, the blanket lender must consent to the share loan financing. In the case of a conversion of an existing building, the blanket lender must agree to the use of the building as a co-op and, if it is feasible, agree—in the event of a default on the blanket mortgage—not to wipe out the shares of those tenant-stockholders who are current in the payment of their assessments or carrying charges.

Assignment of Co-op's Lease/Occupancy Rights

Generally, the project documents should not permit the co-op corporation to restrict the sale, conveyance, or transfer of a unit owned by a lender, its successors, or assigns, nor to place any limits on the assignment of the proprietary lease or occupancy agreement to the lender, its successors, or assigns. This lease or agreement must be assumable by the lender if the tenant-stockholder defaults on the share loan. If the co-op's organizational documents require that a tenant-stockholder be a natural person, they must permit the lender to select a non-corporate designee for any assignment of a proprietary lease or occupancy agreement that it acquires through foreclosure or acceptance of a deed in lieu of foreclosure. If the lender assumes the lease or agreement as the result of the tenant-stockholder's default, the co-op corporation must allow the lender to attempt to sell its interest in the lease or agreement. However, if the lender is unable to effect a satisfactory sale within 60 days—either through its own efforts or with assistance from the co-op corporation—the co-op corporation may not prohibit the lender from subletting the unit.

The project documents may grant the co-op corporation the right to approve a lender's sublessee or to offer an alternate sublessee that is satisfactory to the lender. However, the co-op corporation's approval standards and procedures may not be unreasonably restrictive or in violation of applicable law, and the action must be completed within a reasonable time after the lender requests approval of a proposed sublessee.

Co-op Corporation's Recognition Agreement, Responsibilities, and Lender's Rights

The project documents must either require the co-op corporation to execute a separate agreement—such as a recognition agreement—or include provisions to recognize specific rights of the lender that finances the share loan (or those of its successors or assigns) and the co-op corporation's responsibilities to that lender.

Co-op Corporation's Responsibilities

The recognition agreement (or the project's legal documents) must include, among other things, the following responsibilities for the co-op corporation:

- The co-op corporation must evict a tenant-stockholder who has defaulted on their share loan and must terminate that tenant-stockholder's lease, if the share loan holder requests it to do so.
- The co-op corporation must be legally bound to notify the lender of any of the following changes or occurrences:
  - any threatened or actual condemnation, eminent domain proceeding or acquisition, or any actual loss, whether or not covered by insurance, that affects any portion of the co-op project or unit;
  - failure to maintain compliance with co-operative corporation eligibility under IRS Code Section 216;
  - any 30-day delinquency by the co-op corporation in payments due under any blanket mortgage for real estate taxes, assessments, and charges imposed by a government entity or public utility, or under any ground lease;
  - any lapse or cancellation of any insurance coverages maintained by the co-op project;
  - any proposed action that requires the consent of a specified percentage of eligible share loan holders; and
  - any 90-day delinquency by the tenant-stockholder that is related to the payment of their monthly assessments or carrying charges.

Lender's Rights

The project documents must grant the lender financing a share loan the right to cure the tenant-stockholder's defaults in their assessment payments or carrying charges and the right to review and approve the following actions before the co-op corporation can consent to them:

- any surrender, cancellation, modification, or assignment of any documents evidencing ownership, possession, and use of a unit;
- any sublease of a unit;
- any further or additional pledge or mortgage of any documents evidencing ownership, possession, and use of a unit;
- any action to change the form of ownership of the project; or
- the contraction, expansion, or termination of the co-op project.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-07	September 04, 2018

B4-2.3-04, Loan Eligibility for Co-op Share Loans (08/07/2018)

Introduction

This topic contains information on loan eligibility for co-op share loans, including:

- Overview
- Co-op Share Loan Eligibility Requirements
- Calculating the LTV Ratio for Co-op Share Loans
- Co-op Share Loans Subject to Flip Tax
- Co-op Share Loan Documentation
- Whole Loan and MBS Delivery Requirements

Overview

Co-op share loans finance the purchase or refinancing of the borrower's ownership interest in a co-op housing corporation and accompanying occupancy rights in a residential unit in a co-op project owned by the co-op housing corporation. The property that secures Fannie Mae's first lien is the borrower's ownership interest in a co-op housing corporation that is represented by stock or shares in the co-op housing corporation (or by a membership certificate or other contractual agreement evidencing ownership) and an assignment of the borrower's rights under a proprietary lease or occupancy agreement with the co-op housing corporation.

Co-op Share Loan Eligibility Requirements

Fannie Mae will purchase co-op share loans provided borrowers occupy the property as a principal residence or second home. Investment properties are prohibited. Fannie Mae does not purchase or securitize co-op share loans that are subject to subordinate financing except for high LTV refinance transactions.

For the applicable credit score, minimum reserve requirements, and maximum debt-to-income ratio requirements, see the *Eligibility Matrix*.

Calculating the LTV Ratio for Co-op Share Loans

The method for calculating the LTV ratio for a co-op share loan is based on whether the borrower assumes their pro rata share of the blanket mortgage or does not. In those markets where the borrower assumes their *pro rata* share of the blanket mortgage, the LTV ratio is determined by dividing the original loan amount by the lower of

- the sales price for the co-op unit (unencumbered by the unit's *pro rata* share of the co-op project's blanket mortgage(s)), or
- the appraised value of the co-op stock or shares and the related occupancy rights (unencumbered by the unit's *pro rata* share of the project's blanket mortgage(s)).

In those markets where the borrower does not assume their *pro rata share of the blanket mortgage, then the LTV ratio is determined by dividing the original loan amount by the lower of*

- the sales price for the co-op unit, or
- the appraised value of the co-op stock or shares and the related occupancy rights.

Co-op Share Loans Subject to Flip Tax

Co-op share loans secured by units in co-op projects that require the payment of a “flip tax” are eligible for delivery as long as the co-op project's legal documents permit the imposition of a flip tax and provide for one of the following:

- the lender is exempt from paying the flip tax if the lender acquires the co-op unit in foreclosure, in a transfer by the borrower in lieu of foreclosure, or any other transfer of the borrower's interest in the co-op unit in full or partial satisfaction of the borrower's obligations under the co-op share loan; or
- the flip tax is payable when the sales price of the co-op unit exceeds the existing unit owner's purchase price (based on property appreciation) and then is assessed only on the amount of the appreciation in value (this flip tax is profit-based).

If the flip tax does not meet one of these requirements and is due whether or not the sales price exceeds the existing unit owner's purchase price, then it may still be eligible as long as the amount of the flip tax is less than or equal to 5% of the value of the property (calculated as the lesser of appraised value or sales price) and it is calculated in one of the following ways:

- a flat fee,
- a fee per share,
- a percentage of the appraised value or sales price of the co-op unit, or
- a dollar amount per room.

Co-op Share Loan Documentation

Fannie Mae does not publish multistate standard co-op share loan instruments because of the variations in state laws pertaining to the co-op form of ownership. If a lender elects to use the Fannie Mae fixed-rate note forms for co-op share loans, the lender represents and warrants that the notes comply with all applicable laws and regulations for co-op share loans in and are enforceable and negotiable under the laws of the applicable jurisdiction.

Fannie Mae publishes state-specific documentation requirements for states in which Fannie Mae purchases co-op share loans on Fannie Mae's website. Those requirements describe documents that must be delivered to the document custodian (for example, co-op Recognition Agreement, assignments to Fannie Mae, and evidence of share ownership) and documents that the lender must retain in the individual loan file.

Whole Loan and MBS Delivery Requirements

Co-op share loans may be delivered as whole loans in standard commitments. Co-op share loans pooled in MBS may be eligible for delivery as long as they meet the requirements in

- C3-2-01, Determining Eligibility for Loans Pooled into MBS;
- C3-5-05, Commingling ARMs in MBS; and
- C3-6-01, Parameters for Pooling Loans Into Fannie Majors.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-06	August 07, 2018

B4-2.3-05, Geographic-Specific Co-op Project Considerations (09/04/2018)

Introduction

This topic contains information on geographic-specific co-op project considerations, including:

Overview

The policies in this topic are applicable to co-op projects located in the five boroughs of the City of New York and the New York state counties of Nassau, Rockland, Suffolk, and Westchester. These policies provide eligibility flexibilities that address specific local market conditions and may not be applied to co-op projects outside of these geographic areas.

Special Treatment of Single-Entity Ownership Requirements

The sponsor may own more than 20% of the stock or shares in the corporation and the related occupancy rights provided that any such stock or share ownership above the 20% limitation pertains to units that are subject to statutory rent regulations that limit the sponsor's ability to sell their ownership interest in such shares or stocks. The lender must obtain documentation to validate that the stock or share is subject to such regulations.

Negative Cash Flow from Unsold Units

Negative cash flow from unsold units is permitted provided all of the following requirements are met:

- The co-op corporation's last audited financial statement, current operating budget, and proposed operating budget for the following fiscal year, if any, and the New York State Attorney General's Financial Disclosure Statement ("Attorney General's Disclosure Statement") applicable to such co-op project must demonstrate that to the extent that the project has negative cash flow from unsold units
  - such negative cash flow (including, but not limited to, any principal and interest payments relating to the financing obtained by the sponsor to acquire the co-op project) will not exceed an amount equal to 5% of the project's annual operating budget;
  - no more than 15% of the co-op unit owners are more than 30 days delinquent in the payment of their financial obligations to the co-op corporation; and
  - if the sponsor fails to pay the monthly assessments relating to all co-op units owned by the sponsor, the monthly assessments of the co-op share owners other than the sponsor will not increase by more than 10%.
- The Attorney General's Disclosure Statement or equivalent sponsor disclosure must also indicate that
  - the sponsor is current on all financial obligations under the offering plan relating to the project;
  - the sponsor is current on all financial obligations relating to any other project in which the sponsor owns or holds more than 10% of the units; and
  - the sponsor has not pledged any of the shares of the co-op project as security for any loan other than to secure, in whole or in part, the financing obtained by the sponsor to acquire the co-op project.

- The Attorney General's Disclosure Statement or equivalent sponsor disclosure must be dated no more than 18 months prior to the share loan note date.

Delivery Requirements

Co-op share loans delivered with the geographic flexibilities described in this topic must be delivered to Fannie Mae with Special Feature Code (SFC) 107 in addition to any other required SFCs.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-07	September 04, 2018

Subpart B5, Unique Eligibility and Underwriting Considerations

Introduction

This subpart contains unique eligibility and underwriting considerations pertaining to certain loan, property, and financing types.

Chapter B5-1, High-Balance Mortgage Loans

Introduction

This chapter describes the policies and requirements related to high-balance mortgage loans.

B5-1-01, High-Balance Mortgage Loan Eligibility and Underwriting (08/05/2020)

Introduction

This topic contains loan eligibility and underwriting information on high-balance mortgage loans, including:

- Loan Limits
- Loan Eligibility and Underwriting Requirements
- High LTV Refinance Loans
- Government Mortgage Loans

Loan Limits

The high-balance loan requirements apply to mortgage loans with original loan amounts meeting the high-cost area loan limits established by the Federal Housing Finance Agency. Fannie Mae publishes on its website the maximum high-cost area loan limits that may apply by state (or territory); however, specific loan limits are established for each county (or equivalent) and may be lower for each specific high-cost area. Refer to *Loan Limits for Conventional Mortgages* for additional information, including the loan limits for each area.

Lenders are responsible for ensuring that the original principal balance of each mortgage loan does not exceed the applicable maximum loan limit for the specific area in which the property is located. To assist lenders in determining the applicable limits, Fannie Mae posts reference material on its website, including the Loan Limit Geocoder, which lenders can use to look up loan limits based on a specific address (or batch of addresses).

Loan Eligibility and Underwriting Requirements

High-balance mortgage loans must meet all standard Fannie Mae eligibility and underwriting requirements, as outlined in this *Selling Guide*, except as noted in this section. The following guidelines apply to all high-balance mortgage loans:

- Loans must be conventional first-lien mortgages only.
- Loans must meet the LTV, CLTV, and HCLTV ratios as outlined in the *Eligibility Matrix*.
- All borrowers must have a credit score.
- All loans must be underwritten through DU.

For additional eligibility information, see the *Eligibility Matrix.* For information about loan delivery, see B5-1-02, High-Balance Pricing, Mortgage Insurance, Special Feature Codes, and Delivery Limitations.

> **Note**: Unless otherwise notified by Fannie Mae, existing variances in the Lender Contract apply to high-balance mortgage loans; however, the more restrictive of the eligibility requirements of this section or the lender’s variance will apply.

High LTV Refinance Loans

High-balance mortgage loans are eligible for high LTV refinance options. The eligibility and appraisal requirements specific to high LTV refinance loans supersede all requirements that apply to high-balance mortgage loans. See B5-7-01, High LTV Refinance Loan and Borrower Eligibility for additional information.

Government Mortgage Loans

For details, see B6-1-01, General Government Mortgage Loan Requirements, B6-1-02, Eligible FHA-Insured Mortgage Loans, B6-1-03, Eligible VA-Guaranteed Mortgages, and B6-1-05, Eligible RD-Guaranteed Mortgages.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-04	August 05, 2020
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-06	August 07, 2018
Announcement SEL-2018-01	January 30, 2018

B5-1-02, High-Balance Pricing, Mortgage Insurance, Special Feature Codes, and Delivery Limitations (02/01/2023)

Introduction

This topic contains information about the following aspects of high-balance mortgage loans, including:

- Pricing/Loan-Level Price Adjustments
- Mortgage Insurance Requirements
- Delivery Data Requirements Including Special Feature Codes

- High-Balance Whole Loan and MBS Delivery Limitations

Pricing/Loan-Level Price Adjustments

Live pricing options are provided for high-balance mortgage loan transactions in Fannie Mae's whole loan committing application. Specific additional LLPAs apply to all high-balance mortgage loans, whether delivered under whole loan commitments or MBS contracts. High-balance mortgage loans are also subject to all other applicable LLPAs. All price adjustments are cumulative. For details, see the *Loan-Level Price Adjustment (LLPA) Matrix*.

Mortgage Insurance Requirements

Mortgage insurance coverage is required for high-balance mortgage loans with LTV ratios greater than 80%. Financed borrower-purchased mortgage insurance is permitted; however, the maximum gross LTV (after the inclusion of the financed premium) cannot exceed 95%.

Delivery Data Requirements Including Special Feature Codes

The lender must report SFC 808 when delivering a high-balance loan to Fannie Mae, except for government loans and unless otherwise instructed. All other applicable SFCs must also be reported as required for the transaction.

High-Balance Whole Loan and MBS Delivery Limitations

Fannie Mae's requirements regarding delivery limitations for nonstandard loans apply to high-balance mortgage loans. For details see C2-2-01, General Requirements for Good Delivery of Whole Loans, and C3-2-01, Determining Eligibility for Loans Pooled into MBS. Furthermore, lenders may deliver high-balance mortgage loans into a Fannie Majors TBA-eligible pool. For details, see C3-6-01, Parameters for Pooling Loans Into Fannie Majors.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-01	February 01, 2023

Announcements	Issue Date
Announcement SEL-2022-03	April 06, 2022

Chapter B5-2, Manufactured Housing

Introduction

This chapter describes the requirements for originating and underwriting mortgage loans secured by manufactured housing.

B5-2-01, Manufactured Housing (12/16/2020)

Introduction

This topic contains information on manufactured housing, including:

- Manufactured Housing Overview
- Lender Eligibility
- Variances
- Lender Indemnification

Manufactured Housing Overview

Any dwelling unit built on a permanent chassis that is attached to a permanent foundation system and evidenced by a HUD Data Plate and HUD Certification Label(s) is a manufactured home for purposes of Fannie Mae's guidelines. This includes properties meeting the MH Advantage requirements described in B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing.

The manufactured home and the land on which it is situated must be legally classified as real property.

Other factory-built housing —such as modular, prefabricated, panelized, or sectional housing—is not considered manufactured housing and mortgage loans secured by such housing are eligible under the guidelines stated in Subpart B2, Eligibility.

Government insured or guaranteed manufactured housing loans are not subject to conventional guidelines for manufactured housing and therefore are subject to the provisions set forth in Chapter B6–1, Government Insured and Guaranteed Mortgages.

Lender Eligibility

Lenders are not required to obtain specific approval to deliver loans secured by manufactured homes. However, lenders must obtain Fannie Mae's project acceptance for the following projects if they are composed of manufactured homes:

- Any condo project — Both the land and the dwelling must be subject to the condo association.
- Any co-op project — Both the land and the dwelling must be owned by the co-op corporation.
- Any PUD project composed of single-width manufactured homes.

Variances

Unless specifically stated in the terms of the contract, variances or other terms contained in any lender's contract are not eligible for use with mortgages secured by manufactured homes.

Lender Indemnification

Lenders are subject to all indemnification obligations as described in A2-1-03, Indemnification for Losses.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2018-09	December 04, 2018
Announcement SEL-2018-05	June 05, 2018

B5-2-02, Manufactured Housing Loan Eligibility (06/07/2023)

Introduction

This topic contains information on manufactured housing loan eligibility, including:

- General Loan Eligibility Criteria
- Ineligible Manufactured Housing Criteria
- Manufactured Housing Standards

General Loan Eligibility Criteria

Fannie Mae purchases loans secured by manufactured homes that meet the following general criteria:

- first-lien mortgages only,
- fully amortizing fixed-rate mortgages,
- fully amortizing adjustable-rate mortgages with initial fixed-rate periods of 7 years or 10 years, and
- principal residences (single- and multi-width), and
- second home dwellings (multi-width only).

Refer to the *Eligibility Matrix* for additional restrictions and maximum allowable LTV, CLTV, and HCLTV ratios.

Ineligible Manufactured Housing Criteria

The following are ineligible for loans secured by manufactured housing:

- investment properties,
- homes located on leasehold estates, unless located in a Fannie Mae-approved condo project.

Manufactured Housing Standards

The loan must be secured by both the manufactured home and the land on which it is situated, and both the manufactured home and the land must be legally classified as real property under applicable state law.

The purchase, conveyance, and financing (or refinancing) of the land and the manufactured home must be evidenced and secured by a single valid and enforceable note and first lien mortgage, deed of trust or security deed that is recorded in the land records, in states where applicable state law clearly provides for such a single lien.

See B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing, for additional information.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-05	June 07, 2023
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2018-05	June 05, 2018

B5-2-03, Manufactured Housing Underwriting Requirements (07/06/2022)

Introduction

This topic contains information on manufactured housing underwriting considerations, including:

- Underwriting and DU Requirements
- Loan Amount
- Down Payment Requirements
- Trade Equity from the Borrower's Existing Manufactured Home
- Traded Manufactured Homes
- Purchase Money Transactions
- Limited Cash-Out Refinance Transactions
- Cash-Out Refinance Transactions
- New Construction of a Manufactured Home
- Construction-to-Permanent Transactions

Underwriting and DU Requirements

Loans secured by manufactured homes (including MH Advantage properties) must be underwritten through DU.

When entering the property information into DU, the lender must correctly identify the property type as a manufactured home or MH Advantage, and identify whether it is in a condo, co-op, or PUD project.

> **Note:** DU does not distinguish between single-width and multi-width.

DU checks the subject property addresses against manufactured home property addresses in the DU property database. If DU's database indicates the property may be a manufactured home, DU will return a message alerting the lender. DU's issuance of this message does not necessarily mean the property is a manufactured home, nor does the absence of this message indicate that Fannie Mae accepts the accuracy of the property type as it was submitted

Lenders must research the subject property type. If it is determined the property is a manufactured home, the lender must correct the property type and resubmit the loan casefile to DU. If it is NOT a manufactured home, the loan may be delivered with the appraisal recommendation provided by DU.

> **Note:** DU will issue a message reminding the lender to ensure that the MH Advantage or single-width manufactured home requirements are met, in addition to all other manufactured housing requirements.

Loan Amount

The loan amount may include the following costs:

- cost of the manufactured home;
- cost of the land;
- the costs of construction, including
  - bona fide and documented transportation costs,
  - costs for site preparation, which may include the cost to remove an existing manufactured home and other outbuildings,
  - foundation,
  - establishing utilities,
  - all site improvements, and
  - dwelling installation at the site.

Any personal property items (non-realty items) purchased in conjunction with the manufactured home must be deducted from the sales price and cannot be financed as part of the loan.

Down Payment Requirements

A minimum down payment of 5% must come from the borrower's own funds unless:

- the LTV or CLTV ratio is less than or equal to 80%;

- the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution. See B3-4.3-04, Personal Gifts; B3-4.3-06, Grants and Lender Contributions; and B3-4.3-08, Employer Assistance, for additional information; or
- the property meets the MH Advantage requirements and the loan meets the requirements for LTV ratios of 95.01-97%. In this case, the borrower must contribute a minimum down payment of 3%, from their own funds unless the loan meets the gift, grant, or funds from an employer policy referenced above.

The borrower's equity in the land is considered the borrower's own funds. Where the borrower holds title to the land on which the manufactured home will be permanently attached, the value of the land may be credited toward the borrower's minimum down payment (or equity requirement for a refinance). The borrower's equity contribution will be the difference between any outstanding liens against the land and the market value of the land.

The following table describes how to determine the value of the land based on when and how the borrower acquired the land.

Date of Land Purchase	Value of the Land	Documentation Requirements
More than 12 months preceding the loan application.	The current appraised value.	None.
12 or fewer months preceding the date of the loan application.	The lesser of the sales price or the current appraised value.	The lender must document the borrower's cash investment by obtaining: • a copy of the settlement statement, • a copy of the warranty deed that shows there are no outstanding liens against the property, or • a copy of the release of any prior liens(s).
The borrower acquired the land at any time as a gift, inheritance, or other non-purchase transaction.	The current appraised value.	The lender must obtain appropriate documentation to verify the acquisition and transfer of ownership of the land.

Trade Equity from the Borrower's Existing Manufactured Home

Trade equity from the borrower's existing manufactured home may be used as part of the borrower's minimum down payment requirement. The maximum equity contribution from the traded manufactured home is 90% of the retail value for the traded manufactured home based on the *NADA Manufactured Housing Appraisal Guide* except:

- If the borrower has owned the traded manufactured home for less than 12 months preceding the date of the loan application, the maximum equity contribution is the lesser of 90% of the retail value or the lowest price at which the home was sold during that 12 month period.
- Any costs associated with the removal of the traded home or any outstanding indebtedness secured by liens on the home must be deducted from the maximum equity contribution.

Traded Manufactured Homes

For traded manufactured homes, Fannie Mae requires a lien search in the appropriate real property and personal property records to verify ownership and to determine whether there are any existing liens on the manufactured home and land, or on the home and the land if they are encumbered by separate liens. The seller of the new manufactured home must provide proof of title transfer and satisfaction of any existing liens on the traded manufactured home.

Purchase Money Transactions

Purchase money transactions are those in which the mortgage proceeds are used to finance the purchase of the manufactured home or the manufactured home and the land. The land may be previously owned by the borrower, either free of any mortgage or subject to a mortgage that will be paid off with the proceeds of the new purchase money mortgage.

> **Note:** The borrower does not receive any cash back with a purchase money transaction.

New Manufactured Homes

The LTV ratio (and CLTV/HCLTV ratio, if applicable) for a loan secured by a newly built manufactured home that is being attached to a permanent foundation system in connection with a purchase transaction will be based on the lower of:

- the sales price of the manufactured home plus:
  - the lowest sales price at which the land was sold during that 12 month period if the land was purchased in the 12 months preceding the loan application date; or
  - the current appraised value of the land if the land was purchased more than 12 months preceding the loan application date.
- the “as completed” appraised value of the manufactured home and land.

Existing Manufactured Homes

An existing manufactured home is one that already exists on its foundation.

Manufactured Home Subdivision Development

In cases where a manufactured home is being sold to a consumer by a builder, developer, or manufacturer acting as a developer as part of a new or existing manufactured home subdivision, the LTV ratio (and CLTV/HCLTV ratio, if applicable) for a loan secured by an existing manufactured home will be based on the lower of:

- the sales price of the manufactured home and land; or
- the current appraised value of the manufactured home and land.

All Other Transactions

The LTV ratio (and CLTV/HCLTV ratio, if applicable) for a loan secured by an existing manufactured home will be based on the lowest of:

- the sales price of the manufactured home and land;
- the current appraised value of the manufactured home and land; or
- if the manufactured home was built in the 12 months preceding the loan application date, the lowest price at which the home was previously sold during that 12-month period, plus the lower of:
  - the current appraised value of the land, or
  - the lowest price at which the land was sold during that 12-month period (if there was such a sale).

> **Note:** The above purchase requirements do not apply to single-closing construction-to-permanent transactions. See B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions for additional information.

Limited Cash-Out Refinance Transactions

Limited cash-out refinance transactions may involve the following scenarios:

- payoff of an existing personal property lien on a new manufactured home (or an existing lien on the home and a mortgage on the land if encumbered by separate liens), or
- payoff of a first lien mortgage secured by an existing manufactured home and land (or existing mortgages for the home and land if encumbered by separate liens).

The maximum LTV ratio (and CLTV ratio, if applicable) for a limited cash-out refinance transaction for a loan secured by a manufactured home and land will be based on the lower of:

- the current appraised value of the manufactured home and land; or
- if the manufactured home was owned by the borrower for less than 12 months on the loan application date and:
  - if the home and land are secured by separate liens, the lowest price at which the home was previously sold during that 12-month period plus the lower of the current appraised value of the land, or the lowest sales price at which the land was sold during that 12-month period (if there was such a sale);
  - if the home and land are secured by a single lien, the lowest price at which the home and land were previously sold during that 12-month period.

Proceeds of a limited cash-out refinance mortgage may be used to:

- pay off the outstanding principal balance of an existing personal property lien or first lien mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered by separate first liens);
- pay off the outstanding principal balance of an existing subordinate mortgage or lien secured by the manufactured home and/or land, but only if it was used to purchase the manufactured home and/or land;
- finance costs of construction;
- finance closing costs (including prepaid expenses); and
- provide cash back to the borrower in an amount not to exceed the lesser of 2% of the balance of the new refinance mortgage or $2,000.

Cash-Out Refinance Transactions

A cash-out refinance:

- involves the payoff of an existing first lien mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered by separate first liens); or
- enables the property owner to obtain a mortgage on a property that does not already have a mortgage lien against it, and permits the borrower to take equity out of the property in the form of mortgage proceeds that may be used for any purpose.

To be eligible for a cash-out refinance, the property must be a multi-width manufactured home (single-width are not permitted). The borrower must have owned both the manufactured home and land for at least 12 months preceding the date of the loan application. The LTV, CLTV, and HCLTV ratios will be based on the current appraised value of the manufactured home and land.

New Construction of a Manufactured Home

When the mortgage loan funds the construction of a new manufactured home, construction must be complete when the loan is purchased (or securitized) by Fannie Mae. As a reminder, if construction is completed after the first payment date of the subject loan, the loan may be subject to the property value requirements (loans more than four months old at time of purchase) or seasoned loan requirements in B2-1.5-02, Loan Eligibility.

Construction-to-Permanent Transactions

The following construction-to-permanent transactions are permitted for the construction and permanent financing of a manufactured home:

- single-closing transactions processed as a purchase or limited cash-out refinance, and
- two-closing limited cash-out refinances. (Two-closing cash-out refinances are not permitted.)

The loan must meet the requirements in Section B5-3.1, Conversion of Construction-to-Permanent Financing, and all other manufactured home requirements in this Guide.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-06	July 06, 2022
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-06	August 07, 2018
Announcement SEL-2018-05	June 05, 2018

B5-2-04, Manufactured Housing Pricing, Mortgage Insurance, and Loan Delivery Requirements (12/16/2020)

Introduction

This topic contains information about manufactured housing, including:

- Loan-Level Price Adjustments
- Mortgage Insurance
- Loan Delivery Requirements

Loan-Level Price Adjustments

An LLPA applies to all mortgages secured by manufactured homes that do not meet the MH Advantage requirements, whether delivered to Fannie Mae for whole loan purchase or MBS issuance. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. For the current LLPAs, see the *Loan-Level Price Adjustment (LLPA) Matrix*.

Mortgage Insurance

For mortgage insurance coverage requirements, see B7-1-02, Mortgage Insurance Coverage Requirements.

Loan Delivery Requirements

The following table describes the requirements for delivery of certain data elements that are applicable to manufactured homes.

Manufactured Home Type	Construction Method Type (Sort ID 51)	Manufactured Home Width Type (Sort ID 33)	Special Feature Code(s)
Single-width	Manufactured	SingleWide	235 and 791
Multi-width		MultiWide	235
MH Advantage		MultiWide	235 and 859

Note: These special feature codes are in addition to any other special feature codes that may apply.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2018-05	June 05, 2018

B5-2-05, Manufactured Housing Legal Considerations (12/04/2019)

Introduction

This topic contains information on manufactured housing legal considerations, including:

Closing Instructions

Closing instructions must advise closing agents to obtain the required documentation necessary to ensure that the manufactured home is attached to a permanent foundation system on the land, thus becoming part of the real property.

If a closing agent is not available to perform this action, the lender can rely on the certification of completion completed by the appraiser.

In addition, where state law provides that a manufactured home may be exempt from certificate of title requirements (for instance, where a home is attached initially to a permanent foundation system), such closing instructions must instruct the closing agent to ensure that the manufactured home qualifies for exemption from certificate of title requirements, including monitoring of property installation procedures and the related documentation, and to provide the lender with documentary evidence of that for retention in the loan file.

Where state law allows for the elimination of the certificate of title, the closing instructions must instruct the closing agent to perform all necessary procedures to:

- assure that the certificate of title to the manufactured home is properly retired, and
- provide the lender with documentary evidence for retention in the loan file.

Additionally, lenders must obtain an insured closing protection letter for each mortgage loan that is secured by a manufactured home, if available.

If an insured closing protection letter is not available, then the lender must include a note in the file documenting its unavailability.

Post Closing Items and Conversion to Real Property

If there are post closing items related to conversion of the manufactured home from personal property to real property, the lender should consider use of a properly circumscribed power of attorney from the borrower that may be used to complete the post closing items. All post closing items must be documented in the loan file and, any relevant documents received after closing must be included in the loan file.

Certificate of Title

The table below provides conditional requirements pertaining to the manufactured home certificate of title.

If …	Then …
state law permits the manufactured home to become real property when it is immediately affixed to the permanent foundation system, without issuance of a certificate of title,	the lender must if the transaction involves the purchase of a new manufactured home obtain, and retain as part of the loan file, evidence that no certificate of title was issued. For example, if the lender obtains the manufacturer's certificate of origin, this would be evidence, in most states, that no certificate of title could have been issued.
a certificate of title has been issued, but state law provides for or permits surrender of the certificate of title,	the lender must obtain, and retain as part of the loan file, evidence that the certificate has been surrendered. Such evidence includes: • the confirmation required to be provided by the authority to which the certificate was surrendered, or • if no such confirmation is obtainable: ∘ a copy of the documents submitted in connection with the surrender, and ∘ evidence that such documents were delivered to the appropriate authority.

If …	Then …
a certificate of title has been issued, but state law does not permit the manufactured home to become real property without issuance of a certificate of title and does not provide for surrender of the certificate of title,	the lender must adhere to the following requirements: • The lien must be indicated on the certificate of title. • The certificate of title must be retained in the loan file. • The lender must assure that no other lien is indicated on the certificate of title. • Ownership of the manufactured home as shown on the certificate of title and ownership of the land as shown on the mortgage, deed of trust, or security deed must be identical (that is, the same individuals must sign both, each using the exact same name on both documents).

> **Note**: Given certain provisions of Mississippi law and the practice in the state, the requirements in the last row of the above table apply to manufactured homes in Mississippi. (The other two options in this table do not apply.)

Title Issues and Lien Requirements

To be eligible for purchase by Fannie Mae:

- A manufactured home loan must be secured by a perfected lien (or liens) on real property consisting of the manufactured home and the land.
- The manufactured home must be legally classified as real property under applicable state law, including relevant statutes, regulations, and judicial decisions.

To assist lenders in originating manufactured home loans in various states, Fannie Mae publishes information on titling manufactured homes as real property. Note, this information does not constitute legal advice; lenders must consult their own legal counsel. See Titling Manufactured Housing.

The following requirements are also applicable:

- The owner of the manufactured home must own the land on which the home is situated.
- The manufactured home must be attached to a permanent foundation on the land and comply with state and jurisdictional requirements for permanent affixation.
- A mortgage, deed of trust, or security deed must be recorded in the land records and must identify the encumbered property as including both the home and the land.
- If applicable state law so permits, any certificate of title to the manufactured home must be surrendered to the appropriate state government authority.

- If the certificate of title cannot be surrendered, the lender must indicate its lien on the certificate.

Fannie Mae prefers that a loan on the manufactured home and the land on which it is situated be secured by a single lien.

However, it is recognized that some state laws do not provide for a single lien on both the manufactured home and the land. Therefore, a loan documented by a lien on the land evidenced by a mortgage, deed of trust or security deed and by a real property lien on the manufactured home evidenced on the certificate of title or other document is acceptable.

> **Note**: loans in which there is a chattel lien on the home plus a real property lien on the land are unacceptable.

Title Insurance

The mortgage must be covered under a standard real property title insurance policy that insures that the manufactured home is part of the real property that secures the loan.

American Land Title Association® (ALTA®) Endorsement 7, 7.1, or 7.2 or any other endorsement required in the applicable jurisdiction for manufactured homes to be treated as real property must be included in the file.

Loan Documents

Fannie Mae prefers lenders to use the standard Fannie Mae Uniform Instruments (see *Security Instruments*).

If the Uniform Instruments are not used, then the lender must adhere to the following requirements:

- A single note must be used evidencing all the debt related to the land and the home, and a mortgage, deed of trust, or Georgia security deed securing such indebtedness (plus the certificate of title if state law so requires).
- The note used must provide the nonstandard document warranties that are referenced in A2-2-03, Document Warranties.

Loan documents are not acceptable if they:

- state that the home is personal property or contain other words to that effect;
- state that the parties do not intend to attach the home to a permanent foundation system on the land, or contain statements inconsistent with that intention;
- unless required by law, provide that rights of holders in due course are waived, or with other words provide that an assignee note holder may be held liable for claims the borrower may have against other parties; or
- include consumer finance paper which combines the note and security instrument in a single document or a retail installment sales contract.

The Security Instrument

The security instrument must:

- state that the manufactured home is an improvement to the land and an immovable fixture, or include similar language as may be required by applicable law to assure, to the greatest extent possible, that the manufactured home will be treated as real property under applicable state law. If applicable law provides specific obligatory wording, such wording must be used; and
- include a comprehensive description of the manufactured home and the land in the property description section.

  The description must include the serial or VIN number (or the serial number or VIN for each unit if the home is multi-width), make, model, size, and any other information that may be required by applicable law to definitively identify the home.

  > **Note**: The serial number is located on the HUD Data Plate located on the interior of the home, usually near the electrical box. In addition, the serial number is generally cold-stamped on the frame front cross member of each transportable section.

  Some jurisdictions may not allow any information in the property description section of the security instrument other than what is customary for other real property transactions. If this is the case, then an addendum may be used, which must be attached to the security instrument and included in the loan file.

Affidavit of Affixture

The borrower(s) and any lender with a personal property security interest in the manufactured home must sign an Affidavit that acknowledges their intent for the manufactured home to be permanently part of the real property that secures the mortgage free of any personal property security interest. The Affidavit must also contain any specific language that may be required by applicable law.

It is preferable that the signed Affidavit be recorded, and it must be retained in the loan file.

> **Note**: Failure to include the Affidavit of Affixture in the loan file may result in the loan being ineligible for delivery to Fannie Mae.

If state law requires a Uniform Commercial Code (UCC) filing in order to perfect a security interest in a manufactured home, the lender must make such filing in any and all appropriate locations.

Background Information Regarding Titling for Manufactured Homes

Titling is complex and further complicated by the lack of a federal standard. Consequently, all states devise their own laws resulting in diverse approaches to manufactured home titling and lien perfection. The variety of approaches is particularly challenging for lenders originating manufactured home loans in more than one state. Laws of some states do not clearly provide for a single lien on the manufactured home, together with the land on which it is situated, but instead, for example, require that the lien on the manufactured home be evidenced by notation on the certificate of title.

While the laws of some states establish a procedure for surrender of the certificate of title when the manufactured home has become so permanently affixed to the land that it has become real property, the laws of other states do not allow for the elimination of the certificate of title to a manufactured home regardless of the degree of affixation of the home to the land. In these states, the lien on the land (evidenced by the mortgage, deed of trust or security deed) may be legally distinct from the lien on the manufactured home (evidenced on the certificate of title), though both are liens on real property. In this instance, the manufactured home is often treated as an “immovable fixture” (personal property that has become so permanently attached to the land that it has become real property).

Research on state laws affecting manufactured housing liens indicates, more specifically, that in order to document a lien on a manufactured home that is real property, state laws take several approaches:

- surrendering the certificate of title when the manufactured home is permanently affixed to the land;
- statutory, regulatory, or judicial authority for recognizing a manufactured home as part of the real property, without surrender of the certificate of title. A few states also require UCC filings; or
- recognizing the manufactured home as real property without issuing a certificate of title when the unit is affixed to the land.

Most states permitting manufactured homes to be treated as real property without first being titled as personal property also have procedures for issuing a certificate of title and then surrendering it.

Background Information on States where Surrender of a Certificate of Title is not Permitted

State law that does not provide for surrender of the certificate of title may pose some additional risk to the lender and Fannie Mae.

Under the UCC, as adopted in almost every state, a lien evidenced on any outstanding certificate of title will have priority over a lien on real property to which the manufactured home is affixed, which is evidenced by a mortgage, deed of trust, or security deed.

However, Fannie Mae believes that if a lender follows procedures tailored to take advantage of all protection offered under existing state law—including taking steps to assure that no certificate of title still exists that bears evidence of any lien securing any other loan—sufficient legal protection is afforded.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-09	December 04, 2019

Chapter B5-3, Construction and Energy Financing

Introduction

This chapter describes the policies and requirements for construction and energy financing transactions.

Section B5-3.1, Conversion of Construction-to-Permanent Financing

B5-3.1-01, Conversion of Construction-to-Permanent Financing: Overview (03/01/2023)

Introduction

This topic contains an overview of conversion of construction-to-permanent mortgage loan financing.

- Conversion of Construction-to-Permanent Financing Overview

Conversion of Construction-to-Permanent Financing Overview

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower has obtained to fund the construction of a new residence.

Construction-to-permanent financing can be structured as a transaction with one closing or a transaction with two separate closings. The borrower must hold title to the lot, which may have been previously acquired or be purchased as part of the transaction.

All construction work, including any work that could entitle a party to file a mechanic's or materialmen’s lien, must be completed and paid for, and all mechanic's liens, materialmen’s liens, and any other liens and claims that could become liens relating to the construction must be satisfied before the mortgage loan is delivered to Fannie Mae. The lender must retain in its individual loan file a Form 1004D or a completion alternative of the completed property. When a construction-to-permanent mortgage loan provides funds for acquisition or refinancing of an unimproved lot and the construction of a residence on the lot, the lender must retain a certificate of occupancy or an equivalent form from the applicable government authority.

The lender must use Fannie Mae's uniform mortgage instruments to document the permanent mortgage. These documents may not be altered to include any reference to construction of the property, other than any alteration that Fannie Mae specifically requires.

Attached units in a condo project and all co-op properties are ineligible for construction-to-permanent financing. Detached units in condo projects are permitted for construction-to-permanent financing, including manufactured homes in a condo project (subject to applicable project review requirements).

For guidance on data entry for construction-to-permanent transactions in DU, see the related Desktop Underwriter Job Aid.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-01	January 30, 2018

B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions (03/02/2022)

Introduction

This topic contains information on construction-to-permanent financing loan eligibility for single-closing transactions, including:

Single-Closing Transaction Overview

Single-closing transactions may be used for both the construction loan and the permanent financing if the borrower wants to close on both the construction loan and the permanent financing at the same time. When a single-closing transaction is used, the lender will be responsible for managing the disbursement of the loan proceeds to the builder, contractor, or other authorized suppliers.

Because the loan documents specify the terms of the permanent financing, the construction loan will automatically convert to a permanent long-term mortgage loan upon completion of the construction.

Loans that combine construction and permanent financing into a single transaction cannot be purchased by Fannie Mae until the construction is completed and the terms of the construction loan have converted to the permanent financing.

Manufactured homes must meet all applicable requirements, including compliance with B5-2-05, Manufactured Housing Legal Considerations.

Lenders must use SFC 151 when delivering single-closing construction-to-permanent loans to Fannie Mae (and any other SFCs that may apply to the transaction).

Terms of Construction Loan Period for Single-Closing Construction-to-Permanent Mortgages

For all single-closing construction-to-permanent transactions, the construction loan must be structured as a temporary loan exempt from the ability to repay requirements under Regulation Z. The construction loan period for single-closing construction-to-permanent transactions may have no single period of more than 12 months and the total period may not exceed 18 months. Lenders may, when needed to complete the construction, provide an extension to the original period to total no more than 18 months but the documents may not indicate an initial construction period or subsequent extension of more than 12 months. After conversion to permanent financing, the loan must have a loan term not exceeding 30 years (disregarding the construction period).

As examples, lenders may structure the construction loan period as follows:

- three 6–month periods,
- one 12–month period and one 6–month period, or
- six 3–month periods.

Exceptions to the 12-month and 18-month periods will not be granted. The above construction period requirements do not apply to two-closing construction-to-permanent transactions. If the construction loan period exceeds the requirements above, the lender must process the loan as a two-closing construction-to-permanent transaction in order for the loan to be eligible for sale to Fannie Mae (see B5-3.1-03, Conversion of Construction-to-Permanent Financing: Two-Closing Transactions).

Eligible Loan Purposes for Single-Closing Construction-to-Permanent Mortgages

A single-closing construction-to-permanent mortgage loan may be closed as:

- a purchase transaction, or
- a limited cash-out refinance transaction.

When a purchase transaction is used, the borrower is not the owner of the lot at the time of the first advance of interim construction financing, and the borrower is using the proceeds from the interim construction financing to purchase the lot and finance the construction of the property.

When a limited cash-out refinance transaction is used, the borrower must have held legal title to the lot before they receive the first advance of interim construction financing. The borrower is using the proceeds from the construction financing to pay off any existing liens on the lot and finance the construction of the property. This type of transaction is not a "true" limited cash-out refinance whereby the borrower refinances a loan(s) that was used to purchase a completed property; however, all other requirements for limited cash-out refinances apply. See B2-1.3-02, Limited Cash-Out Refinance Transactions and the limited cash-out refinance requirements in B5-2-03, Manufactured Housing Underwriting Requirements.

> **Note**: Cash-out refinance transactions are not eligible for single-closing construction-to-permanent mortgages.

Calculating the LTV Ratio for Single-Closing Construction-to-Permanent Mortgages

Single-closing construction-to-permanent mortgages are subject to the purchase and limited cash-out refinance maximum LTV, CLTV, and HCLTV ratios (based on property type) provided in the *Eligibility Matrix*, as applicable.

The LTV ratio calculation differs depending on whether the transaction is a purchase or a limited cash-out refinance, as shown in the table below.

Transaction Type	Lot Ownership Requirement	LTV Ratio Calculation
Purchase	The borrower is not the owner of record of the lot at the time of the first advance of interim construction financing.	Divide the loan amount of the construction-to-permanent financing by the lesser of: • the purchase price (sum of the cost of construction and the sales price of the lot), or • the “as completed” appraised value of the property (the lot and improvements). The loan amount of a manufactured home can include all allowable costs as listed in B5-2-03, Manufactured Housing Underwriting Requirements
Limited Cash-out Refinance	The borrower is the owner of record of the lot at the time of the first advance of interim construction financing.	Divide the loan amount of the construction-to-permanent financing by the “as completed” appraised value of the property (the lot and improvements).

Down Payment Requirements for Single-Closing Purchase Transactions

The borrower must use their own funds to make the minimum borrower contribution unless:

- the LTV, CLTV, or HCLTV ratio is less than or equal to 80%; or
- the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution. See B3-4.3-04, Personal Gifts; B3-4.3-06, Grants and Lender Contributions; and B3-4.3-08, Employer Assistance, for additional information.

Modifications of Single-Closing Construction-to-Permanent Mortgages

If the terms of the permanent financing change after the original closing date of the construction loan, the loan may be modified to reflect the new terms if it meets all of the following criteria:

- The modification must take place prior to or at the time of conversion.
- Only the following loan terms may be modified in a single-closing transaction:
    - interest rate,
    - loan amount,

  - loan term, and
  - amortization type.

  The only amortization change permitted is from an adjustable-rate amortization to a fixed-rate amortization.

  Changes made to any other loan terms will require a two-closing construction-to-permanent transaction.

- The loan must be underwritten based on the terms of the loan as modified and delivered to Fannie Mae. If the final (modified) terms of the loan do not match the last submission to DU, the loan must be resubmitted to DU (subject to *Underwriting Single-Closing Construction-to-Permanent Mortgages* and *Requalification Requirements* described below).
- Increases to the loan amount are permitted only as necessary to cover documented increased costs of construction of the property.
- If the modification results in an increase in the original loan amount, the lender remains responsible for all standard title insurance requirements. In addition, the lender must obtain an endorsement to the title insurance policy that
  - extends the effective date of the coverage to the date of the recording of the modification agreement;
  - increases the amount of the policy to the original loan amount, as increased; and
  - confirms that the lien of the mortgage, as modified, continues to be a first lien.

  > **Note**: Both the original construction loan amount at closing and the final modified loan amount delivered to Fannie Mae must meet the loan limits currently in effect.

- The original construction loan must be documented on Fannie Mae uniform instruments or substantially similar documents, subject to the non-standard document representations and warranties.
- The modification must be documented on one of the following:
  - *Loan Modification Agreement (Providing for Fixed Interest Rate)* (Fannie Mae Form 3179);
  - *Loan Modification Agreement (Providing for Adjustable Interest Rate)* (Fannie Mae Form 3161); or
  - A substantially similar document, subject to the non-standard document representations and warranties.

Underwriting Single-Closing Construction-to-Permanent Mortgages

The lender must underwrite a single-closing construction-to-permanent loan based on the terms of the permanent financing. If the permanent financing terms are modified, and no longer reflect the terms on which the underwriting was based, the loan must be re-underwritten, subject to certain re-underwriting tolerances. The loan data at delivery must match the data in the final submission of the loan casefile to DU.

As described in the table below, re-underwriting tolerances may be applied if the interest rate or loan amount was modified. (All other modifications require re-underwriting.)

<table>
<tr><th>Modified Loan Term</th><th>Re-underwriting Tolerances</th></tr>
<tr><td>Interest Rate</td><td rowspan="2">• For loans underwritten through DU: see the tolerances and resubmission requirements in B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report.
• For manually underwritten loans: if the recalculated DTI (based on the change in rate or loan amount) does not exceed 45%, the loan must be re-underwritten with the updated information to determine if the loan is still eligible for delivery.
Note: If the increase in the DTI ratio moves the DTI ratio above the 36% threshold, the loan must meet the credit score and reserve requirements in the Eligibility Matrix that apply to DTI ratios greater than 36% up to 45%.</td></tr>
<tr><td>Loan Amount</td></tr>
</table>

Age of Credit Documents

All credit documents must be no more than four months old on the note date (that is, the closing date of the construction loan). Additionally, income, employment, and credit report documents must be no more than four months old at the time of conversion to permanent financing. As an exception, these documents may be more than four months but not exceeding 12 months old at the time of the conversion to permanent financing if all of the following conditions were met at the time of the original closing of the construction loan:

- The LTV, CLTV, and HCLTV ratios do not exceed 95%.
- The representative credit score of the loan is greater than or equal to 700.
- The loan casefile was underwritten through DU and received an Approve/Eligible recommendation.

If any one of the above conditions was not met or an eligible loan term was modified subsequent to the last DU submission, the lender must

- obtain updated income, employment, and credit report documents no more than four months prior to conversion; and
- re-qualify the borrower(s) in accordance with the *Requalification Requirements* below.

Updated asset documentation is not required at the time of conversion to permanent financing (regardless of the age of asset documents) unless upon requalification, either of the following applies:

- more reserves are required than were required at the time of original qualification
  - the full amount of reserves must then be reverified, or
- the borrower chooses to bring additional funds to the transaction
  - the additional funds must come from an eligible source and be documented.

Impact on Validation through the DU Validation Service

If updated credit documents are required to be obtained after the original closing of the construction loan, any validation of income, employment, or assets is no longer applicable. Updated validation reports must be obtained, and the loan casefile resubmitted to DU, and the loan must convert to permanent financing by the

Close By Date stated in the DU validation message in order for validation and the associated waiver of enforcement relief of representations and warranties to apply.

See B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns for additional information.

Age of Appraisal Documents

For all single-closing transactions, the effective date of the appraisal must be no more than four months prior to the note date (that is, the closing date of the construction loan). Additionally, at the time of completion of construction, an *Appraisal Update and/or Completion Report (Form 1004D)* must be completed in its entirety including the appraisal update and certification of completion. If the appraiser indicates on the Form 1004D that the property value has declined, then the lender must obtain a new appraisal for the property and requalify the borrower using the updated LTV ratio per the *Requalification Requirements*, below.

See B4-1.2-04, Appraisal Age and Use Requirements for additional information.

Requalification Requirements

Requalification of the borrower(s) is required at the time of conversion to permanent financing if

- the LTV ratio increased due to a decline in property value,
- updated credit documents were obtained, or
- as otherwise required per the modified loan term in the table above.

To be eligible for purchase by Fannie Mae, the loan must retain an Approve/Eligible recommendation after resubmission to DU (or, be eligible per the *Eligibility Matrix* if manually underwritten).

When requalification is required

- the LTV ratio must be adjusted based on the updated appraisal, if applicable;
- if credit documents exceed the four (or 12) month age of documentation requirement, the updated income, credit, and liability information must be considered; and
- the loan data at delivery must match the data considered in the final requalification of the loan.

Loan Conversion Documentation Options

The construction loan may be converted into a permanent loan in either of the following ways:

- Option 1: A construction loan rider must be used to modify Fannie Mae’s uniform instrument that will be used for the permanent loan. The rider must state the construction loan terms, and the construction-related provisions of the rider must become null and void at the end of the construction period and before the permanent loan is sold to Fannie Mae. Because the permanent loan cannot be sold before it is scheduled to begin amortizing, the lender will need to amend the construction loan rider, and the accompanying uniform instrument, if the construction is completed sooner or later than originally anticipated. The amendment(s) should provide the new dates on which amortization for the permanent loan will begin and end. The lender also will need to record the amended documents before the permanent loan is sold.

- Option 2: A separate modification agreement must be used to convert the construction loan into permanent financing. This agreement must be executed and recorded in the applicable jurisdiction before the permanent loan is sold to Fannie Mae.

The lender must include the applicable conversion document in its loan submission package. When amended documents are recorded in connection with a construction loan rider, the lender also must include a copy of the original documentation that the borrower signed.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-02	March 02, 2022
Announcement SEL-2021-08	September 01, 2021
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-03	April 03, 2018

B5-3.1-03, Conversion of Construction-to-Permanent Financing: Two-Closing Transactions (08/07/2019)

Introduction

This topic contains information on conversion of construction-to-permanent financing loan eligibility for two-closing transactions, including:

- Two-Closing Transactions Overview
- Eligible Loan Purposes for Two-Closing Construction-to-Permanent Mortgages

Two-Closing Transactions Overview

Two-closing construction-to-permanent mortgage transactions utilize two separate loan closings with two separate sets of legal documents. A modification may not be used to update the original note, rather a new note must be completed and signed by the borrower(s). The first closing is to obtain the interim construction financing (and may include the purchase of the lot), and the second closing is to obtain the permanent financing upon completion of the improvements. Fannie Mae does not purchase construction loans (the first closing); however, Fannie Mae does purchase loans that were used to provide the permanent financing.

The lender that provides the permanent long-term mortgage may be a different lender than the one that provided the interim financing. The lender must underwrite the borrower based on the terms of the permanent mortgage.

Eligible Loan Purposes for Two-Closing Construction-to-Permanent Mortgages

In a two-closing construction-to-permanent transaction, the permanent mortgage delivered to Fannie Mae may be closed as:

- a limited cash-out refinance transaction, or
- a cash-out refinance transaction.

Two-closing construction-to-permanent mortgages are subject to the limited cash-out and cash-out refinance maximum LTV, CLTV, and HCLTV ratios based on the property type provided in the *Eligibility Matrix*, as applicable. For the borrower to be eligible for a cash-out refinance transaction, the borrower must have held legal title to the lot for at least six months prior to the closing of the permanent mortgage. All other standard cash-out refinance eligibility and underwriting requirements apply.

> **Note**: Two-closing cash-out refinances are not permitted on a manufactured home.

Recent Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement-SEL-2019-07	August 07, 2019

Section B5-3.2, HomeStyle Renovation Mortgage

B5-3.2-01, HomeStyle Renovation Mortgages (03/01/2023)

Introduction

This topic contains information on HomeStyle Renovation mortgages, including:

- Overview
- Allowable Improvements
- Lender Eligibility
- Lender Responsibilities
- Delivery and Recourse Requirements
- Removal of Recourse

Overview

The HomeStyle Renovation mortgage enables a borrower to purchase a property or refinance an existing loan and include funds in the loan amount to cover the costs of repairs, remodeling, renovations, or energy improvements to the property. The loan may be delivered to Fannie Mae prior to completion of the renovation, subject to limited recourse as described below.

> **Note**: For loan casefiles underwritten through DU, DU will determine that the transaction is a HomeStyle Renovation loan if the Renovation indicator in Property and Loan Information (L1) is selected and there is an amount entered in Line B (L4) of the online loan application.

Allowable Improvements

There are no required improvements or restrictions on the types of renovations allowed, nor is there a minimum dollar amount for renovations.

Generally, improvements should be permanently affixed to the real property (either dwelling or land), with the exception of certain appliances installed with kitchen and utility room remodels. The borrower may use HomeStyle Renovation to purchase appliances as part of an overall remodeling project that includes substantial changes or upgrades to the rooms in which the appliances are placed.

HomeStyle Renovation may be used to complete the final work on a newly built home when the home is at least 90% complete. The remaining improvements must be related to completing non-structural items the original builder was unable to finish. Such work may include installation of buyer-selected items such as flooring, cabinets, kitchen appliances, fixtures, and trim.

HomeStyle Renovation may be used to construct various outdoor buildings and structures when allowed by local zoning regulations. These buildings or structures must be in compliance with any applicable building codes for the local area. Examples of acceptable structures include, but are not limited to, accessory units, garages, recreation rooms, and swimming pools.

HomeStyle Renovation may not be used for complete tear-down and reconstruction of the dwelling.

HomeStyle Renovation may also be used to finance energy-related improvements. See B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties, for additional information.

Lender Eligibility

HomeStyle Renovation mortgage loans have specific product requirements and guidelines for which lenders must ensure detailed compliance. Lenders must obtain special approval to deliver these types of loans to Fannie Mae prior to completion of the renovation work. See A2-1-01, Contractual Obligations for Sellers/Servicers for additional information. If a lender delivers HomeStyle Renovation loans to Fannie Mae after all renovation work is complete, no special approval is required.

Lender Responsibilities

Renovation work must be completed no later than 15 months from date the loan is closed. In the rare circumstance a renovation project exceeds 15 months, the lender must submit this information to Loan Quality Connect to describe the circumstances resulting in the delay and determine potential remedies. These options may include

- a limited extension of the timeframe (not to exceed 18 months from the date the loan was closed),
- curtailment of the work to be completed,
- repurchase of the loan, or
- other remedies applicable to the specific circumstance.

Fannie Mae has sole discretion in determining which remedy is acceptable when renovation timeframe exceeds 15 months.

Lenders may not transfer servicing on HomeStyle Renovation loans during the renovation period.

The lender is responsible for monitoring completion of the renovation work and must exercise all approval and oversight responsibilities that are customary and required to comply with specific state laws and to ensure that clear title to the property is maintained.

Lenders may use vendors to manage the operational, escrow, and completion requirements for HomeStyle Renovation loans; but when a vendor is used, the lender is responsible for adequate vendor oversight to ensure all requirements are met.

If any action the lender takes or fails to take in overseeing the renovation work affects Fannie Mae’s ability to acquire clear title to the property, the lender may be required to repurchase the loan.

The lender must maintain a copy of all of the documentation that supports the renovation work, including plans and specifications, “as completed” appraisal, renovation contract, renovation loan agreement, certificate of completion, title insurance endorsements or updates, and any other related documentation in the loan file. For more information about the specialized legal documentation Fannie Mae requires for a HomeStyle Renovation mortgage, see Subpart B8, Closing: Legal Documents.

Delivery and Recourse Requirements

A lender may deliver a HomeStyle Renovation loan as soon as it is closed; the renovation does not need to have been completed when the loan is delivered as long as the lender delivers that loan with recourse. If the borrower defaults under the terms of the loan before the work is completed, and that default continues for at least 120 days, the lender may be required to repurchase the loan. One of the following SFCs is required when the loan is delivered.

If the HomeStyle Renovation mortgage is delivered…	Then…	And the lender must deliver…
• when the renovation is not complete	• the loan is delivered with recourse	• SFC 215
• when the renovation is complete	• no recourse obligation applies	• SFC 279

If the HomeStyle Renovation mortgage includes financing of energy-related improvements, the loan is eligible for an LLPA credit if the lender delivers the loan using the following SFCs.

If the renovation includes…	Then…	And the lender must deliver…
• one or more ENERGY STAR-certified improvements	• the loan is also eligible for HomeStyle Energy and a $500 LLPA credit	• SFC 375 and • SFC 773
• other improvements eligible for HomeStyle Energy but does not include any ENERGY STAR-certified improvements	• the loan is also eligible for HomeStyle Energy and a $500 LLPA credit	• SFC 375

> **Note:** The HomeStyle Energy SFCs are required in addition to the applicable HomeStyle Renovation SFC.

Removal of Recourse

For loans delivered with recourse, the lender may request the recourse obligation be removed when the renovation is complete. The following criteria will be applicable to the removal of recourse:

- Recourse will not be removed if the loan is delinquent when the lender requests removal.
- If the borrower was 1 x 30 days delinquent at any point during the renovation work, but is current when removal is requested, the recourse may be removed.
- If the borrower had more than one 30 day delinquency or was ever 60 - 90 days delinquent, the lender may request recourse removal after the borrower has made 36 payments with no delinquencies.

To request removal of recourse, the lender must submit a complete *Appraisal Update and/or Completion Report* (Form 1004D) to Loan Quality Connect. Submissions must meet the following requirements:

- The Fannie Mae loan number(s) must be identified in the request and attached documents must have the loan numbers in the title.
- Documents must be clear and complete. For example, it is a best practice to include photos of completed renovations with all submissions.

See B5-3.2-05, HomeStyle Renovation Mortgages: Completion Certification, for additional information.

HomeStyle Renovation mortgages are eligible for enforcement relief of underwriting and eligibility representations and warranties as described in A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility. To be eligible for relief, the renovation must be complete and recourse removed.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2022-05	June 01, 2022
Announcement SEL-2022-01	February 02, 2022
Announcement SEL-2018-02	February 27, 2018

B5-3.2-02, HomeStyle Renovation Mortgages: Loan and Borrower Eligibility (04/03/2019)

Introduction

This topic contains information on HomeStyle Renovation mortgages and borrower eligibility requirements, including:

Renovation-Related Costs

Renovation-related costs that may be considered as part of the total renovation costs include:

- property inspection fees;
- costs and fees for the title update;
- architectural and engineering fees;
- independent consultant fees;
- costs for required permits;
- other documented charges, such as fees for energy reports, appraisals, review of renovation plans, and fees charged for processing renovation draws; and
- up to six months payments (PITIA) if a principal residence property cannot be occupied during renovation (see B5-3.2-04, HomeStyle Renovation Mortgages: Costs and Escrow Accounts for additional information).

> **Note**: An amount for sweat equity may not be factored into the renovation costs.

Property Requirements

The security property for a HomeStyle Renovation mortgage must be

- a one- to four-unit principal residence;
- a one-unit second home;

- a one-unit investment property;
- a manufactured home; or
- a unit in an eligible PUD, condo, or co-op project.

When the security property is a unit in a condo or co-op project, the proposed renovation work must be permissible under the bylaws of the HOA or co-op corporation, or the HOA or co-op corporation must have given written approval for the renovation work. The renovation work for a condo or co-op unit must be limited to the interior of the unit, including the installation of fire walls in the attic.

The renovation of manufactured homes is allowed under HomeStyle Renovation provided the improvements do not include structural changes (such as adding a garage or other attached element). Eligible, non-structural improvements include, but are not limited to

- improvements to kitchens and bathrooms;
- installing energy efficiency heating and cooling systems;
- changes to address mobility and aging in place requirements; and
- installation of new windows, doors, siding, or roofing provided these changes do not alter the structure of the unit.

HomeReady Eligibility

HomeReady loans are eligible in combination with HomeStyle Renovation; however, the more restrictive requirements of HomeReady or HomeStyle Renovation apply when these two products are combined on a loan. For example, a HomeReady HomeStyle Renovation mortgage must be a principal residence transaction, whereas standard HomeStyle Renovation permits second homes and investment properties.

Exceptions:

- For purchase transactions with LTV, CLTV, or HCLTV ratios 95.01 - 97% that combine HomeReady and HomeStyle Renovation, Fannie Mae is not requiring at least one borrower to be a first-time homebuyer.
- The mortgage insurance requirements for HomeReady apply when HomeReady and HomeStyle Renovation are combined. See B7-1-02, Mortgage Insurance Coverage Requirements, for details.

Mortgage Terms

A HomeStyle Renovation mortgage may be either a fixed-rate mortgage or an ARM loan. The original principal amount of the mortgage may not exceed Fannie Mae’s maximum allowable mortgage amount for a conventional first mortgage.

Fannie Mae provides the *HomeStyle Renovation Maximum Mortgage Worksheet* (Form 1035), to assist lenders in calculating the maximum loan amount.

The maximum cost for renovations for various HomeStyle Renovation scenarios are described in the following table.

Transaction Type	The cost of renovations must not exceed...
Purchase transaction	75% of the lesser of • the sum of the purchase price of the property plus renovation costs, or • the “as completed” appraised value of the property.
Refinance transaction	75% of the “as completed” appraised value of the property.
Manufactured homes	the lesser of • $50,000 or • 50% of the “as completed” appraised value.

“Do It Yourself” Option

The “Do It Yourself” option is available for renovations made to one-unit properties by the borrower. This option is not available for manufactured homes. “Do It Yourself” renovations may not represent more than 10% of the “as completed” value of the property. The lender must review and approve the renovations in advance, and must inspect the completion of all items that cost more than $5,000.

A borrower may request reimbursement for their payments for the cost of materials or for the cost of properly documented contract labor, but not for the cost of their sweat equity (labor). When a borrower chooses this option, the lender must fully budget for the cost of labor and materials related to the renovation so that, should the borrower be unable to complete the work, a contractor can be hired to finish any of the “Do It Yourself” repairs.

LTV Ratios

All of the applicable LTV, CLTV, and HCLTV ratios for HomeStyle Renovation mortgages can be found in the *Eligibility Matrix*.

The LTV ratio calculation differs based on the applicable transaction type.

- For a purchase money transaction, the LTV ratio is determined by dividing the original loan amount by the lesser of the “as completed” appraised value of the property or the sum of the purchase price of the property and the total renovation costs.
- For a refinance transaction, the LTV ratio is determined by dividing the original loan amount by the “as completed” appraised value of the property.

Limited Cash-out Transactions

When a HomeStyle Renovation mortgage loan is originated as a limited cash-out refinance transaction, the loan amount may include

- the amount required to satisfy the existing first mortgage;
- the amount required to satisfy any outstanding subordinate mortgage liens that were used to acquire the property;
- closing costs, prepaid fees, and points; and
- the total renovation costs, including allowable renovation-related costs for the home improvements up to the maximum permitted LTV and CLTV ratios.

The borrower may not obtain any other funds from the transaction, including those that are generally allowed for a limited cash-out refinance transaction. Excess funds, if any, after renovations are completed, may be applied to the loan balance as a curtailment or may be reimbursed to the borrower for the cost of actual supplies or additional renovations for which paid receipts are provided. The value of sweat equity may not be reimbursed.

Borrower Requirements

Borrowers must meet the requirements of B2-2-01, General Borrower Eligibility Requirements. Nonprofit investors and local government agencies may be considered for eligibility on a negotiated basis. Lenders may contact their Fannie Mae customer account team for more information.

To ensure that the borrower understands all of the terms of a HomeStyle Renovation mortgage, the lender may use Fannie Mae’s *HomeStyle Renovation Consumer Tips* (Form 1204), as a checklist for the key facts that need to be disclosed to the borrower, and the borrower’s signature will serve as an acknowledgment of their understanding of these facts.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-03	April 03, 2019
Announcement SEL-2018-02	February 27, 2018

B5-3.2-03, HomeStyle Renovation Mortgages: Collateral Considerations (02/02/2022)

Introduction

This topic contains information on HomeStyle Renovation mortgage collateral considerations, including:

Appraisal Requirements

The appraisal report for a HomeStyle Renovation mortgage must provide an “as completed” appraised value that estimates the value of the property after completion of the renovation work. (See B5-3.2-02, HomeStyle Renovation Mortgages: Loan and Borrower Eligibility, for requirements pertaining to the cost of the renovations as a percentage of the appraised value. See also *Unplanned Changes in Scope or Incomplete Work* later in this topic.

Energy Report Requirements

The lender must review an energy report if a HomeStyle Renovation loan is being combined with a HomeStyle Energy loan. See B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties, for additional information concerning the requirements related to the energy report.

> **Note:** Energy improvements may be financed without obtaining an energy report if the lender is not utilizing the additional flexibilities under the HomeStyle Energy program.

Contractor Requirements

All renovation work must be performed by a licensed contractor or subcontractor, unless contractor licensing is not applicable under state or local law for the specific trade or type of renovations being performed.

The borrower must choose the contractor to perform the needed renovation, subject to the lender’s determination that the contractor is

- qualified and experienced,
- has all appropriate credentials required by the state,

- is financially able to perform the duties necessary to complete the renovation work in a timely manner, and
- agrees to indemnify the borrower for all property losses or damages caused by its employees or subcontractors

The lender may not choose the contractor or refer the borrower to any one specific contractor. However, the lender may require the borrower to obtain a completed *Contractor Profile Report* (Form 1202) from the contractor that is selected to ensure that the lender has sufficient information available to make a determination about the contractor's qualifications.

The borrower may also complete repairs under the "Do It Yourself" option described in B5-3.2-02, HomeStyle Renovation Mortgages: Loan and Borrower Eligibility.

Plans and Specifications

The plans and specifications must be prepared by a registered, licensed, or certified general contractor, renovation consultant, or architect. The plans and specifications should fully describe all of the work to be done and provide an indication of when various jobs or stages of completion will be scheduled (including both the start and completion dates).

The lender must use the plans and specifications to document and evaluate the quantity, quality, and cost of the renovation work that is to be done and to determine the amount of financing that will be available. These plans and specifications also must be used by the appraiser in the development of their opinion of the "as completed" value of the property.

Before approving any change a borrower wants to make to the original plans and specifications, the lender must require the borrower to submit a *HomeStyle Change Order Request* (Form 1200) or a substantially similar document, that provides a detailed description of

- the changes,
- the cost of the changes, and
- the estimated completion date(s).

Unplanned Changes in Scope or Incomplete Work

Lenders must work with borrowers and contractors to ensure renovations are completed as planned, within an acceptable timeframe. If unforeseen circumstances occur during the renovation work, such as property damage from a natural or manmade disaster, or a life altering event such as death or divorce, the lender must take additional steps to evaluate the materiality of the change to any renovations in progress.

The lender must obtain an updated appraisal to determine whether the changes will impact the "as completed" value of the property, and must self-report any change in value by entering it into Loan Quality Connect. In some cases, the lender may be responsible for additional mortgage insurance or LLPAs. When the new LTV exceeds Fannie Mae's eligibility criteria, or the changes result in a home that does not meet Fannie Mae's general property standards and appraisal requirements, the lender may be required to repurchase the loan.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-01	February 02, 2022
Announcement SEL-2018-02	February 27, 2018

B5-3.2-04, HomeStyle Renovation Mortgages: Costs and Escrow Accounts (08/07/2019)

Introduction

This topic contains information on HomeStyle Renovation costs and escrow accounts, including:

- Costs and Escrow Accounts
- Contingency Reserve
- Escrowing Initial Mortgage Payments
- Renovation Escrow Account

Costs and Escrow Accounts

The costs of the renovations will be based on the plans and specifications for the work and on the contractor's bids for all of the work requested by the borrower. The renovation costs may include a contingency reserve, renovation-related costs, and an escrow for mortgage payments that come due during the renovation period, if the borrower is unable to occupy the property during the renovation.

Contingency Reserve

The contingency reserve should cover all renovation-related costs including labor, materials, fees, permits, plans and specifications, inspection costs, and other expenses related to the renovation.

A contingency reserve is not required for a mortgage secured by a one-unit property, however the lender may choose to establish one. A contingency reserve equal to 10% of the total costs of the repairs and renovation work must be established and funded for a mortgage that is secured by a two- to four-unit property to cover required unforeseen repairs or deficiencies that are discovered during the renovation. The lender may increase the contingency reserve to 15% if it determines the higher reserve is appropriate given the scope and scale of the renovation.

The contingency reserve may be considered as part of the total renovation costs or the borrower may fund it separately. It may be released only if required, necessary, and unforeseen repairs or deficiencies are discovered during the renovation. Unused contingency funds, unless they were received directly from the borrower, must be used to reduce the outstanding balance of the renovation loan after all of the renovation work has been completed and the certification of completion has been obtained.

However, a borrower may use the remaining contingency reserve funds for making additional improvements or repairs to the property, if the lender:

- warrants that the work scheduled and described in the plans and specifications was completed and the contingency reserve funds have already been reduced by any cost overruns; and
- ensures that
  - the contingency reserve funds that are to be used for additional improvements or repairs are actually used to improve the real property,

    the improvements or repairs are documented with paid receipts from the borrower’s own funds, and

    inspections of the additional work or installations are completed by the appraiser who prepared the “as completed” value appraisal report.

Escrowing Initial Mortgage Payments

At the borrower’s request, up to six mortgage payments (PITIA) that will become due during the renovation period may be included as part of the total renovation costs for a principal residence property if the property cannot be occupied during the renovation period. The lender, servicer, or its agent must hold the funds in a renovation escrow account, and only apply them to payments that come due during the period in which the property cannot be occupied.

> **Note:** The lender may set up a separate escrow account for the mortgage payments in lieu of including the funds in the renovation escrow account.

Renovation Escrow Account

The renovation costs (less any draws made at closing), the contingency reserve, mortgage payments (if applicable), and monies that the borrower provides from their own funds, must be deposited into an escrow account for the benefit of the borrower. The renovation escrow account must meet the requirements shown in the following table at the time of delivery to Fannie Mae.

✓	Renovation Escrow Account Requirements
	The account must meet the requirements of and be administered in accordance with the requirements in the Servicing Guide, D1-2-01, Renovation Mortgage Loans.
	The funds must be used to complete the repair and renovation work and, if applicable, make any mortgage payments that come due during the renovation period. **Note**: The lender must ensure that the funds held for mortgage payments are used only for that purpose and are not used for renovations or any other reason.
	The lender, or its agent, is responsible for administering this account and ensuring the repairs and renovations are completed in a timely manner and in accordance with the plans, specifications, and contractor estimated bids.
	The lender must release funds from this account only when any given renovation work has been completed, and then only in accordance with the agreed-upon schedule and after receipt of a specific request.
	• Renovation funds may only be disbursed using the following processes: a check issued jointly to the borrower and the contractor; or • a wire transfer to the contractor after the lender has obtained written consent from the borrower to release the funds to the contractor. The written consent must be received prior to each disbursement. It must specify the borrower’s name, property address, amount of funds to be disbursed, contractor to which the funds are to be disbursed, and date of the consent.
	After renovations are complete, all funds remaining in this account, including any mortgage payment reserves, may be used to either: • reduce the unpaid principal balance of the loan (unless they represent funds deposited separately by the borrower), or • to make additional improvements or repairs to the property.

> **Note:** The lender may fund up to 50% of the planned materials cost at closing with an initial materials draw. A portion of this draw may be used to pay for permits, architect fees, and design or planning expenses that were incurred during the initial part of the project.The lender must obtain periodic inspections to confirm the work is being completed as planned prior to the issuance of additional escrow draws.

Should there be an increase in costs during the renovation period, the borrower, or the lender, must fund the amount of the increase. The lender may not increase the loan amount to offset any increase in costs. The lender must ensure that the additional funds are obtained in a manner that will not affect the priority of Fannie Mae’s lien.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-06	August 07, 2018
Announcement SEL-2018-02	February 27, 2018

B5-3.2-05, HomeStyle Renovation Mortgages: Completion Certification (02/27/2018)

Introduction

This topic contains information on the HomeStyle Renovation mortgage including:

- Completion Certification
- Title and Insurance Updates

Completion Certification

Following completion of the renovation work, the lender must obtain a certification of completion stating the renovation was completed in accordance with the submitted plans and specifications. The certification must be documented on the *Appraisal Update and/or Completion Report* (Form 1004D). The 1004D must confirm all "subject to" items listed on the appraisal were completed. If deviations have been made to the initial plans, the appraiser must note any impact to the value. If the value has been impacted, the lender must follow the policy in *UnplannedChanges in Scope or Incomplete Work* in B5-3.2-03, HomeStyle Renovation Mortgages: Collateral Considerations.

The lender must also obtain a certificate of occupancy upon completion of renovation if it is required by local authorities for the type of renovation work that was completed.

Title and Insurance Updates

Concurrent with the last disbursement of funds, the lender must obtain a title update through the date the renovation was completed, to ensure the continuance of Fannie Mae’s first lien priority and the absence of any mechanic's or materialmen’s liens. When the property is located in a state in which contractors’, subcontractors’, or materialmen’s liens have priority over mortgage liens, the lender must obtain all necessary lien releases or take any other action that may be required to ensure title to the property is clear of all liens and encumbrances.

The lender also must retain in the loan file a certification regarding the adequacy of the property insurance following completion of the renovation. The certification must confirm the coverage has been increased, if necessary, to comply with Fannie Mae’s standard property and flood insurance requirements.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-02	February 27, 2018

B5-3.2-06, HomeStyle Renovation: Renovation Contract, Renovation Loan Agreement, and Lien Waiver (02/02/2022)

Introduction

This topic contains information on HomeStyle Renovation documents, including:

- Renovation Contract
- Renovation Loan Agreement
- Lien Waiver

Renovation Contract

The renovation contract must

- itemize the specific work that the contractor agrees to perform for the borrower;
- state the agreed-upon cost of the renovation;
- identify all subcontractors and suppliers; and

- include an itemized description that establishes the schedule for completing each stage of the work and the corresponding payments to be made to the contractor.

This contract, which must be fully executed by both the contractor and the borrower prior to closing, must require the contractor to

- be duly licensed (if required by applicable law);
- obtain all required insurance coverages (such as all-risk, public liability, workmen's compensation, and automobile liability);
- complete the work in compliance with the contract and all applicable government regulations (such as building codes and zoning restrictions);
- obtain the necessary building permits (including a certificate of occupancy, upon completion of renovations, if required by local law); and
- provide for appropriate remedies for resolving disputes (including an agreement to indemnify the borrower for all property losses or damages caused by the contractor's employees or subcontractors).

Fannie Mae has developed a model *Renovation Contract* (Form 3730) to document the renovation contract between the borrower and the contractor.

The lender must keep a copy of the fully executed renovation contract in the loan file.

HomeStyle Renovation mortgages may be subject to a variety of laws and regulations, based on the type of transaction or the types of lenders originating the mortgages. Therefore, when Fannie Mae's model document is used, all appropriate, required changes must be made.

Renovation Loan Agreement

A renovation loan agreement is a written agreement between the borrower and the lender. This agreement must be fully executed by both the lender and the borrower at closing and dated the same date as the note. The agreement must

- state the original principal amount of the related promissory note payable to the lender;
- include the property address;
- state the terms and conditions of the loan prior to the completion of the improvements;
- state the events that constitute a borrower default, including, but not limited to, failing to keep any promise or to perform any obligation in the agreement;
- indicate the remedies available to the lender if the borrower defaults under the terms of either the renovation contract or other loan documents;
- require the contractor to have any license required by any government regulations, and to obtain and keep in force an all-risk insurance policy (with a physical loss form endorsement and a mortgagee's loss payable clause) equal to 100% of the full replacement cost of the improvements, public liability insurance, workmen's compensation insurance (as required by applicable state law), and automobile liability insurance;
- require that either the borrower or the contractor obtain (and keep in force) all work permits required by

any government agency, and comply with all applicable laws or government regulations;

- require the borrower to
    - submit to the lender a title policy and assist the lender in obtaining the appraisal and a survey;
    - agree that all renovation work will be completed no later than 15 months from the date the loan is closed and in accordance with the terms of the renovation contract (subject to approved change orders);
    - permit the lender to make property inspections; and
    - pay all costs and expenses required to satisfy any conditions of the agreement (including costs overruns, the costs of change orders, and the costs of enforcement of the agreement in the event of default);
- state the terms and conditions under which the lender may extend the 15 month completion deadline if the renovation cannot be completed on time (due to extenuating circumstances outside of the borrower's control), including
    - limiting any extension to no later than 18 months after the loan closing; and
    - requiring any extension to be in writing and the borrower to not be in default under any of the terms of the loan documents or the renovation contract;
- include provisions related to
    - the time, manner, and method by which the lender disburses the loan proceeds;
    - conditions on how the disbursements may be used;
    - procedures on how to request a disbursement (including the proper format, information, and required signatories);
    - documentation required to support each request for disbursement (such as the title policy, any required lien waivers from all contractors, subcontractors, and suppliers) and any required inspection reports;
    - the number and amount of payments that the lender is to make to the borrower and/or the contractor; and
- obligate the borrower and the contractor to enter into a renovation contract for all labor and materials to renovate the improvements, and provide the lender with a copy of
    - that contract;
    - the applicable plans and specifications that fully describe all work to be performed;
    - the renovation budget (which provides a timetable for stages of completion and the schedule for disbursements for payment of amounts due);
    - a schedule of disbursements for payment of the renovation costs; and
    - the requirements for requesting (and obtaining approval of) change orders.

Fannie Mae has developed a model *Renovation Loan Agreement* (Form 3731) to document the renovation loan agreement between the borrower and the lender.

Because HomeStyle Renovation mortgages may be subject to a variety of laws and regulations based on the type of transaction or the type of lender originating the mortgages, a lender that uses Fannie Mae’s model documents must make all appropriate, required changes to them.

The fully executed renovation loan agreement is a custodial document. The lender must maintain a copy of the agreement in the loan file and send the original to the document custodian as part of the loan delivery package (see E-2-01, Required Custodial Documents, for additional information).

Lien Waiver

Before a lender makes the final disbursement upon the completion of renovation, it must obtain a lien waiver from the contractor, all subcontractors, and suppliers or a clear title report that releases all contractor, subcontractor, and supplier liens. Fannie Mae's model document—*Lien Waiver* (Form 3739)—may be used for this, provided the lender makes any changes to it that are required by applicable law.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-01	February 02, 2022
Announcement SEL-2018-06	August 07, 2018
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2018-02	February 27, 2018

Section B5-3.3, HomeStyle Energy Mortgages

B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties (12/14/2022)

Introduction

This topic contains the following information concerning mortgage loans on existing properties where energy-related improvements are included as part of the transaction, including:

Overview

There are a number of HomeStyle Energy financing options available to a borrower who wishes to improve the energy and/or water efficiency of an existing property and decrease its related utility costs. HomeStyle Energy may also be used to create home resiliency for environmental disasters such as floods, storms, and earthquakes, or to repair damage from these types of disasters.

There is no minimum dollar amount for the improvements; the maximum dollar amount depends on the type of HomeStyle Energy activity and the transaction, described in the table below.

HomeStyle Energy Activity	Maximum Amount to Finance Energy-Related Items
Renovation of an existing property to make energy-related improvements	For purchases or limited cash-out refinances up to 15% of the "as completed" appraised value of the property.
Payoff of non-PACE secured or unsecured debt that financed energy-related improvements	For limited cash-out refinances up to 15% of the appraised value of the property. The energy-related debt must be paid off in full. Partial payoffs are not permitted. **Note:** If a HomeStyle Energy loan includes both new energy-related improvements and payoff of previously acquired energy-related debt, the total of both cannot exceed 15%.
Payoff of existing PACE loan	For purchases or limited cash-out refinances: all outstanding PACE debt may be paid off up to the maximum allowable LTV for the transaction and occupancy type. The PACE loan must be paid off in full. Partial payoffs are not permitted.

> **Note:** Lenders may use HomeStyle Energy financing in conjunction with HomeStyle Renovation to finance energy-related improvements that exceed the amounts in the table above. See Section B5–3.2, HomeStyle Renovation Mortgage, for the requirements.

A lender does not need special approval to deliver HomeStyle Energy loans to Fannie Mae.

A lender may deliver a HomeStyle Energy loan with eligible improvements as soon as the loan is closed. The eligible improvements do not have to be completed when the mortgage is delivered to Fannie Mae. HomeStyle Energy loans are not subject to recourse.

The lender must establish a completion escrow for incomplete energy improvements. The improvements must be completed no later than 180 days from the date of the mortgage note. For requirements related to the completion of the postponed improvements, including escrow accounts, disposition of funds after work completion, and title reports, see the applicable table in B4-1.2-05, Requirements for Verifying Completion and Postponed Improvements.

The term "energy-related improvements" is used throughout this Guide, and includes all eligible improvements described in this topic. All energy-related improvements must be permanently affixed to the property except for certain appliances installed with kitchen and utility room remodels when completed as part of a HomeStyle Renovation loan. See B5-3.2-01, HomeStyle Renovation Mortgages, for additional information.

Eligible Energy-Related Improvements

In addition to energy and water efficiency improvements, HomeStyle Energy can be used to repair homes damaged in a natural disaster or by an environmental hazard and to install resiliency or preventative improvements, including the following:

- storm surge barriers;
- foundation retrofitting for earthquakes;
- hazardous brush and tree removal in fire zones;
- retaining walls to address mud or water flows; and
- other items specifically needed to either repair environmental hazard damage or improve the home’s ability to withstand environmental hazards such as hurricanes, tornadoes or wind storms, earthquakes, flooding, landslides, and wildfires.

Installation of radon remediation systems is also an eligible improvement under HomeStyle Energy.

ENERGY STAR-Certified Improvements

HomeStyle Energy can be used to finance energy-related improvements that are included in the List of ENERGY STAR Efficient Products.

Eligible Property and Occupancy Types

All one- to four-unit existing properties are eligible for HomeStyle Energy. All property types are eligible. Manufactured homes are eligible provided the improvements do not include structural changes.

All occupancy types are permitted.

Product Eligibility

Energy-related improvements are permitted on existing properties in conjunction with all standard Guide products and features including, but not limited to:

- high-balance loans,
- Community Seconds,
- loans with deed restrictions (including programs that allow below market rate mortgages),
- down payment assistance programs,
- HomeReady loans, and
- Community Land Trusts.

Loans with energy-related improvements are subject to the applicable LTV, CLTV, and HCLTV ratios for purchase and limited cash-out refinance transactions found in the *Eligibility Matrix*. Energy-related improvements cannot be financed in the loan amount of a high LTV refinance loan.

> **Note:** Energy-related improvements are permitted on a cash-out refinance, however the transaction is not considered a HomeStyle Energy loan. All standard cash-out refinance policies apply.

Purchase Transactions: In a purchase transaction, the proceeds can be used to finance the acquisition of the property and the cost of energy-related improvements or the amount to payoff PACE debt. The LTV ratio is determined by dividing the original loan amount by the lesser of

- the "as completed" appraised value of the property
- the sum of the purchase price of the property plus the cost of the energy-related improvements, or
- the sum of the purchase price plus the total amount of PACE debt to be paid off.

Limited Cash-out Refinance Transactions: When a loan is originated as a limited cash-out refinance, the loan must meet all of the standard requirements for limited cash-out refinances (as described in B2-1.3-02, Limited Cash-Out Refinance Transactions).

Energy-related improvements may be financed in the loan amount. Proceeds may also be used to pay off an existing PACE loan or other debt (secured or unsecured) that financed energy-related improvements. The standard cash back allowance of the lesser of 2% of the loan amount or $2,000 is permitted on these loans.

For limited cash-out refinance transactions, the LTV ratio is determined by dividing the original loan amount by the "as completed" appraised value of the property when the mortgage is being delivered prior to the completion of the improvements. If the appraisal was completed after the completion of the improvements, then the LTV ratio is determined by dividing the original loan amount by the appraised value of the property.

Energy Report Requirements

Borrowers are required to obtain a residential or home energy report to identify the recommended energy improvements to the property and the estimated cost savings associated with those improvements when they are using funds for new energy-related improvements.

The energy report must be reviewed by the lender and must

- identify the recommended energy improvements and expected costs of the completed improvements;
- specify the monthly energy savings to the borrower; and
- verify that the recommended energy improvements are cost-effective. Energy improvements are determined to be cost-effective when the cost of the improvements, including maintenance, is less than the present value of the energy saved over the useful life of the improvements. (The cost-effectiveness of the improvements may be assessed in the aggregate and are not required to be assessed separately for each energy improvement.)

The report must meet at least one of the following standards:

- A Home Energy Rating Systems (HERS) report completed by a HERS rater who is accredited under the Mortgage Industry National Home Energy Rating Standards (HERS Standards), as adopted by the Residential Energy Services Network (RESNET®). A list of accredited HERS raters by state can be located at RESNET's website.
- A Department of Energy (DOE) Home Energy Score Report completed by an independent third-party energy assessor with credentials obtained through one or more of the organizations listed as eligible under the DOE program. A list of acceptable organizations can be found on the DOE website.
- A rating report completed by an independent and certified home energy consultant or auditor, comparable in rating methods and scope to the HERS or Home Energy Score evaluation, and that is permitted under a local or state level home energy certification or audit program.

The energy report must be dated no earlier than 120 days prior to the note date.

If the cost of the energy report is paid for by the borrower, the cost may be financed as part of the mortgage by including it in the cost of the energy improvements. The cost must be included on the settlement statement if it is financed in the mortgage loan.

Exceptions to Energy Report Requirements: Energy reports are not required in certain circumstances. Alternative documentation (other than an energy report) is acceptable in the following circumstances:

- Weatherization items – If the transaction only involves financing the purchase of basic weatherization items (such as programmable thermostats and insulation) or water efficiency devices (such as low-flow showerheads) totaling up to $3,500. Acceptable documentation includes, but is not limited to, a copy of invoices or receipts for energy-related expenses or copies of contractor invoices for completing the basic weatherization items.
- Payoff of PACE loans – Documentation must show that the funds are used solely to pay off the PACE loan obtained for energy improvements on the subject property.
- Payoff of non-PACE energy-related debt - Documentation must show the funds were used solely for the purchase and installation of eligible energy-related improvements on the subject property.
- Energy improvements related to the installation of renewable energy sources including water efficiency devices, solar panels, wind power devices, and geothermal systems - Acceptable documentation includes,

but is not limited to, a copy of invoices or receipts for installing the systems or devices.

- ENERGY STAR-certified products - The lender must maintain documentation in the loan file that shows the energy-related improvement is on the List of ENERGY STAR Energy Efficient Products.
- Improvements to install a radon remediation device - Documentation for the cost of the system and its expected impact on the radon levels in the home must be obtained.
- Environmental hazard damage repairs or resiliency improvements - Acceptable documentation includes, but is not limited to, a copy of invoices or receipts for the expenses or copies of contractor invoices for completing the repairs or improvements.

Underwriting with DU

Loans using HomeStyle Energy flexibilities can be underwritten manually or through DU.

For loans underwritten in DU, specific information must be provided in the online loan application in Section L1 as follows:

- Energy Improvement - Select the applicable check boxes.
- Energy improvements included in transaction - Enter the amount of new energy improvements that are included in the purchase or limited cash-out transaction, and any non-PACE energy debt being paid off with the limited cash-out transaction. Non-PACE energy debt included in this field should not be included in Section L4 Line D.
- Payoff Amount of any PACE loan - Enter the payoff amount of any existing PACE loans that will be paid off in the subject transaction. PACE energy debt should not be included in Section L4 Line D.

Manual Underwriting

For loans involving energy-related improvements that are underwritten manually, a maximum debt-to-income ratio of 45% is allowed if the transaction satisfies all criteria in the Eligibility Matrix for a 45% DTI ratio on a manually underwritten loan.

When the transaction does not meet the requirements for an expanded DTI ratio up to 45%, the borrower may have a DTI ratio up to 38% (instead of 36% DTI ratio) when the lender obtains a DOE Home Energy Score Report on the subject property with a score of 6 or higher. All other underwriting requirements, such as the down payment, credit score, and reserve requirements, are identical to those for a similar transaction with a maximum DTI ratio of 36%. If the lender obtained a comparable industry energy efficiency report that demonstrates the property has met the standards for increased energy efficiency, that report may be used to all for a DTI ratio up to 38%. This DTI ratio flexibility is not permitted on transactions for which no energy report was obtained.

Appraisal Requirements

All HomeStyle Energy loans require an appraisal based on an interior and exterior property inspection and must be completed on the appropriate form depending on the property type. When the loan is being delivered prior to the completion of the energy-related improvements, appraisers must determine the “as completed” value of the property subject to the improvements being completed. A certification of completion is required when the mortgage is delivered prior to the completion of the improvements. For requirements related to the certification of completion, see B4-1.2-05, Requirements for Verifying Completion and Postponed Improvements.

Lender Responsibilities

The lender is responsible for

- ensuring that the appraiser has been provided with a copy of the energy report, if one was required, and other required documentation described in this topic,
- managing the completion escrow account in which improvement funds are held, and
- monitoring the completion of the HomeStyle Energy improvement work.

See the requirements related to the energy-related improvement feature in B4-1.2-05, Requirements for Verifying Completion and Postponed Improvements.

The lender must maintain a copy of all documentation in the individual loan file that supports the energy-related improvement work, such as the energy report, "as completed" appraisal, home improvement contract, certification of completion, and title insurance endorsements or updates (if applicable).

Loan-Level Price Adjustment Credit

Fannie Mae will credit the lender a $500 LLPA for loans with financed energy-related improvements on existing properties. SFC 375 must be delivered for the credit to be applied. See the *Loan-Level Price Adjustment (LLPA) Matrix*.

Special Feature Codes

The following SFCs are required for loans with eligible energy-related improvements. These codes also apply to delivery of HomeStyle Renovation loans with energy-related improvements.

If the energy-related improvements include...	**Then the lender must deliver...**
• one or more ENERGY STAR-certified improvements	• SFC 375 and • SFC 773
• other improvements eligible for HomeStyle Energy but does not include ENERGY STAR-certified improvements	• SFC 375

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2022-05	June 01, 2022
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2020-03	June 03, 2020
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2019-06	July 03, 2019
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2018-02	February 27, 2018

Section B5-3.4, Property Assessed Clean Energy Loans

B5-3.4-01, Property Assessed Clean Energy Loans (12/16/2020)

Introduction

This topic contains information on Property Assessed Clean Energy (PACE) loans, including:

- Overview

- Eligibility
- Refinancing Options for Properties with a PACE Loan
- Delivery Requirements

Overview

Certain energy retrofit lending programs, often referred to as Property Assessed Clean Energy (PACE) programs, are made by localities to finance residential energy-related improvements and are generally repaid through the homeowner's real estate tax bill. These loans typically have automatic first lien priority over previously recorded mortgages. The terms of the Fannie Mae/Freddie Mac Uniform Security Instruments prohibit loans that have senior lien status to a mortgage.

Eligibility

Fannie Mae will not purchase mortgage loans secured by properties with an outstanding PACE loan unless the terms of the PACE loan program do not provide for lien priority over first mortgage liens. Lenders must monitor state and local law to determine which jurisdictions offer PACE loans that may provide for lien priority.

If the PACE loan is structured as a subordinate lien or unsecured loan, the first mortgage loan may be underwritten to Fannie Mae's standard guidelines.

However, for PACE loans originated prior to July 6, 2010, Fannie Mae waives the uniform security instrument prohibition against a PACE loan with lien priority if the corresponding mortgage loan was purchased before July 6, 2010 or is in an MBS pool with an issue date on or before July 1, 2010.

> **Note:** On the Form 1003 (1/2021) the borrower must indicate if the property will be subject to a PACE lien that will take priority over the first mortgage lien in Section 5a E. The lender must indicate if the property is currently subject to a a PACE lien that will take priority over the first mortgage lien in Section L1.

Refinancing Options for Properties with a PACE Loan

The following requirements apply to borrowers with loans that are owned or securitized by Fannie Mae who seek to refinance and who obtained a PACE loan prior to July 6, 2010:

- **Paying off the PACE loan:** The lender must first attempt to qualify the borrower for either a cash-out or limited cash-out refinance option, with the PACE loan being paid off as part of the refinance. To mitigate the risk posed by PACE obligations that take lien priority over the mortgage, Fannie Mae requires that borrowers with sufficient equity pay off the existing PACE obligation as a condition to obtaining a new mortgage loan. The prohibition against using the proceeds of a limited cash-out refinance to pay off a loan not used to purchase the property will not apply.

  Loan casefiles underwritten in DU as a limited cash-out refinance may receive an Ineligible recommendation when it appears the borrower is receiving more than 2%/$2,000 cash back due to the payoff of a PACE loan. The lender may deliver the loan with the Ineligible recommendation and retain the DU limited waiver of underwriting representations and warranties provided that the mortgage loan meets the requirements of this Guide, including (but not limited to) A2-2-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU

- **Retaining the PACE loan:** If the borrower is unable to qualify for a cash-out or limited cash-out refinance with sufficient proceeds to pay off the PACE loan, the lender may underwrite the loan as a limited cash-out refinance, with the PACE loan remaining in place. In these cases, it will not be necessary to include the PACE loan in the calculation of the CLTV ratio, though it must be included in the monthly housing expense (PITIA) and debt-to-income calculation.

Delivery Requirements

For those eligible limited cash-out refinances where the PACE loan remains in place, the loans must be delivered with SFC 173.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-02	February 27, 2018

Chapter B5-4, Property-Specific Products

Introduction

This chapter describes the policies and requirements for property-specific products.

Section B5-4.1, General Requirements of Texas Section 50(a)(6) Loans

B5-4.1-01, Texas Section 50(a)(6) Loans (12/19/2017)

Introduction

This topic contains information on Texas Section 50(a)(6) loans, including:

Overview

A Texas Section 50(a)(6) loan is a loan originated in accordance with and secured by a lien permitted under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions.

Lender Eligibility

Unless otherwise notified in writing, all lenders are eligible to sell and/or service Texas Section 50(a)(6) loans as long as the lender meets the eligibility criteria specified in Texas Constitution Section 50(a)(6). A lender that intends to sell Texas Section 50(a)(6) loans originated by a third-party originator is also responsible for ensuring that the originating lender qualifies as an “authorized lender” under Texas Constitution Section 50(a)(6).

Loan Origination and Compliance

In addition to Fannie Mae's other origination and compliance requirements for Texas Section 50(a)(6) loans in this chapter, lender agrees to the following:

✓	**Requirement**
	The borrower’s first payment must be due no later than two months after closing.
	For purposes of the compliance with the acknowledgment of the “fair market” value of the homestead property requirement, the “fair market value” must be based on an appraisal and the appraisal must be attached to the written acknowledgment. See B5-4.1-03, Texas Section 50(a)(6) Loan Underwriting, Collateral, and Closing Considerations for Fannie Mae's appraisal requirements.

✓	Requirement
	The proceeds from a Texas Section 50(a)(6) loan must not be used to acquire or improve the homestead if a loan for that purpose could have been made under a different provision of the Texas Constitution. Fannie Mae has no other restrictions on the use of the loan proceeds.
	If the new loan is a Texas Section 50(a)(6) loan refinance transaction originated to cure a failure in the original loan to comply with Texas Constitution Section 50(a)(6), then the new loan is eligible for sale to Fannie Mae provided that it complies in all respects with Fannie Mae's requirements. However, unless a refinance transaction has been completed to cure a failure in the original loan transaction to comply with Texas Constitution Section 50(a)(6), a Texas Section 50(a)(6) loan is ineligible for sale to Fannie Mae if the lender has either identified or been notified by the borrower of a failure to comply, whether or not there has already been a cure or an attempt to cure the failure to comply.
	DU does not contain the specific eligibility rules needed to determine eligibility of Texas Section 50(a)(6) loans under Texas Constitution Section 50(a)(6) or the *Selling Guide*. Lenders must determine whether refinance loans secured by properties in Texas are eligible for sale to Fannie Mae, and should be aware that even though a loan may receive an "Eligible" recommendation, the loan may not comply with Texas Constitution Section 50(a)(6) or be eligible for delivery according to Texas Constitution Section 50(a)(6) or the *Selling Guide* .

Lender Certification

By sale of a Texas Section 50(a)(6) loan to Fannie Mae, the lender represents, warrants, and certifies that with respect to all of the Texas Section 50(a)(6) loans delivered to Fannie Mae, whether or not originated by the lender:

- All Texas Section 50(a)(6) loans were originated pursuant to written processes and procedures that comply with the provisions of the Texas Constitution applicable to mortgage loans.
- The lender has in place a specific process for the receipt, handling, and monitoring of notices from borrowers that lender (or the mortgage originator, if lender is the servicer but not the originator) failed to comply with the provisions of the law applicable to Texas Section 50(a)(6) loans. Such process must be adequate to ensure that the lender will correct the failure to comply by one of the authorized means no later than the 60th day after the date the lender is notified of the failure to comply by the borrower.
- An attorney familiar with the provisions of Texas Constitution Section 50(a)(6) was consulted in connection with the development and implementation of the processes and procedures used for the origination of the Texas Section 50(a)(6) loans.
- To ensure ongoing compliance with the law applicable to loans authorized by Texas Constitution Section 50(a)(6), the processes and procedures used for the origination of the Texas Section 50(a)(6) loans will be

reviewed by the lender regularly and will be updated and revised, as appropriate pursuant to clarifications of the law, on a regular and continual basis.

Lender's and Servicer's Obligations to Maintain Procedures for Curing Violations

Lenders and servicers must have specific processes in place to cure any failure to comply with Texas Constitution Section 50(a)(6) identified with respect to a loan sold to or serviced on behalf of Fannie Mae by one of the authorized means, as required by the "Lender Certification" requirements described above. A lender's or servicer's failure to cure within 60 days after being notified of a failure to comply may, under Texas law, result in the forfeiture of all principal and interest due under the Texas Section 50(a)(6) loan. However, any action taken, or not taken, in connection with a failure to comply with Texas Constitution Section 50(a)(6), even if such action is a result of the lender's or servicer's effort to cure a failure to comply, that results in any of the following constitutes a breach of the lender's selling representations and warranties and/or servicing obligations and requirements:

- a forfeiture of any principal or interest due under the mortgage loan;
- invalidation of the mortgage as a first lien;
- abatement of accrual of interest and the borrower's obligations under the mortgage loan;
- reduction in the principal amount of the mortgage loan; or
- any modification of the amount, interest rate, term, or other provision of the mortgage loan.

Such action, taken or not taken, shall be deemed a failure to correct a significant defect and/or a servicing defect that permits Fannie Mae to exercise any of the remedies provided in the Lender Contract, including the right to require repurchase of the loan.

If the lender or servicer receives notice from a borrower that a lender (or the mortgage originator, if the lender or the servicer is not the originator) failed to comply with Texas Constitution Section 50(a)(6), the lender or servicer must immediately, but no later than seven business days after receipt, take the following actions:

- inform Fannie Mae's Legal department by submitting a *Non-Routine Litigation*(Form 20) and include the borrower notice in its submission; and,
- collaborate with Fannie Mae on the appropriate response, including any cure that may be necessary, within the 60-day-time frame provided by the requirements of Texas Constitution Section 50(a)(6).

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B5-4.1-02, Texas Section 50(a)(6) Loan Eligibility (12/16/2020)

Introduction

This topic contains information on Texas Section 50(a)(6) loan eligibility, including:

- Refinance Classifications
- Eligible Loan Products and Transaction Types
- Texas Section 50(a)(6) Loan Security Property

Refinance Classifications

Lenders should be aware that Fannie Mae's classification of loan transactions as "cash-out refinance" or "limited cash-out refinance" may differ from the way loans are classified under Texas law.

Lenders should not rely on Fannie Mae's categorization of refinance loans for purposes of determining whether compliance with the provisions of Texas Constitution Section 50(a)(6) is required. Rather, such lenders should consult with their counsel to determine the applicability of Texas Constitution Section 50(a)(6) to a particular loan transaction.

Texas law determines whether or not a loan is a Texas Section 50(a)(6) loan, and Fannie Mae's policy determines whether the loan must be delivered as a cash-out refinance transaction or as a limited cash-out refinance transaction.

The lender is responsible for determining:

- the applicability of Texas Constitution Section 50(a)(6) regardless of Fannie Mae's definitions of cash-out and limited cash-out refinance transactions; and
- if the loan should be delivered to Fannie Mae as a cash-out refinance or a limited cash-out refinance transaction, including the applicable special feature codes and payment of all applicable LLPAs.

All loans that constitute Texas Section 50(a)(6) loans under Texas law must comply with these provisions, regardless of whether the loan is classified as a "cash-out refinance" or "limited cash-out refinance" in the *Selling Guide*. See B5-4.1-03, Texas Section 50(a)(6) Loan Underwriting, Collateral, and Closing Considerations

For any refinance of a Texas Section 50(a)(6) loan that results in a loan originated in accordance with and secured by a lien permitted by Article XVI, Section 50(a)(4) of the Texas Constitution, an affidavit referenced in Section 50(f-1) Article XVI of the Texas Constitution must be prepared and recorded in connection with each such transaction.

Eligible Loan Products and Transaction Types

Texas Section 50(a)(6) loans must be fully amortizing loans with payments due on a monthly basis. The following are eligible as Texas Section 50(a)(6) loans:

- first lien mortgages only;
- fixed-rate loans; and
- five-, seven-, and ten-year ARM plans (4927, 4928, and 4929 Texas 50(a)(6), respectively).

> **Note:** These ARM plans should be structured in the same way that they are for other loans, except that the loan may not be assumable at any time over its full term. Only the ARM plans listed above are eligible, due to the MBS disclosure impact resulting from the non-assumable nature of these ARMs.

The following are not eligible as Texas Section 50(a)(6) loans:

- loans that are not in first-lien position,
- ARM plans not listed above, and
- loans with temporary interest rate buydowns.

Texas Section 50(a)(6) Loan Security Property

A Texas Section 50(a)(6) loan must be secured by a single-unit principal residence constituting the borrower's homestead under Texas law. Loans secured by two- to four-unit properties, investment properties, or second homes are not eligible. The security property may be

- a detached dwelling,
- an attached dwelling,
- a unit in a PUD project,
- a unit in a condo project, or
- a manufactured home. (A manufactured home is eligible only if it is classified as real property under Texas law, and satisfies all special Fannie Mae eligibility criteria for manufactured homes.)

The borrower's homestead property may not exceed the applicable acreage limit as determined by Texas law when the Texas Section 50(a)(6) loan is originated.

A borrower that owns adjacent land must submit appropriate evidence, such as a survey, that the mortgaged homestead property is a separate parcel that does not exceed the permissible acreage.

> **Note**: An *inter vivos* revocable trust that meets Fannie Mae's borrower eligibility criteria (as described in B2-2-05, Inter Vivos Revocable Trusts), may be a borrower under a Texas Section 50(a)(6) loan, provided that the trust meets the requirements for a "qualifying trust" under Texas law for purposes of owning residential property that qualifies for the homestead exemption.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2020-02	April 01, 2020

B5-4.1-03, Texas Section 50(a)(6) Loan Underwriting, Collateral, and Closing Considerations (03/01/2023)

Introduction

This topic contains information on Texas Section 50(a)(6) loan underwriting, collateral, and closing considerations, including:

- LTV/CLTV Ratios
- Underwriting
- Property Valuation and Survey
- Loan Documentation
- Title Insurance

LTV/CLTV Ratios

Per Texas law, the maximum allowable LTV and combined LTV for any Texas Section 50(a)(6) loan is 80%, notwithstanding any conflicting provisions of this Guide or any specific DU recommendation or finding. HELOC subordinate financing is not permitted, hence a maximum HCLTV ratio is not applicable.

Underwriting

Texas Section 50(a)(6) loans are eligible for the reduced documentation requirements recommended by DU, provided that all other terms and conditions described herein for Texas Section 50(a)(6) loans shall apply.

For a Texas Section 50(a)(6) loan that represents the refinance of a prior Texas Section 50(a)(6) loan, the borrower must requalify even if the lender is currently servicing the existing loan that is being refinanced.

Manually underwritten Texas Section 50(a)(6) loans are subject to minimum credit score requirements per the *Selling Guide*, based on the transaction as either a cash-out refinance or a limited cash-out refinance, as applicable.

Property Valuation and Survey

Lenders must obtain a new appraisal to determine the property's current value even if DU recommends value acceptance (appraisal waiver), or a value acceptance + property data. The appraisal must be attached to the written acknowledgment of fair value.

The appraisal for the property and the acknowledgment of fair market value must not include any property other than the homestead.

The survey (or other acceptable evidence) must demonstrate that:

- the homestead property and any adjacent land are separate parcels, and
- the homestead property is a separately platted and subdivided lot for which full ingress and egress is available.

The lender selling the loan to Fannie Mae must not have any interest (such as an option to purchase, a security interest, or an easement) in any parcel adjacent to the homestead property that is owned by the borrower, if such interest could constitute additional security for the Texas Section 50(a)(6) loan.

Loan Documentation

There is a special security instrument, notes, and riders that must be used in connection with Texas Section 50(a)(6) loans and a special affidavit that must be prepared and recorded in connection with each Texas Section 50(a)(6) loan transaction. Lenders must use the following documents:

- *Texas Home Equity Security Instrument (First Lien) (Form 3044.1)*
- the specific Texas Section 50(a)(6) loan notes and riders, and
- *Texas Home Equity Affidavit and Agreement (First Lien)* (Form 3185)

Because of the complexities involved in closing Texas Section 50(a)(6) loans, lenders must provide the title company with a detailed closing instruction letter and require an acknowledgment of its receipt.

The closing instructions must require the title company to conduct its closings properly to ensure compliance with Texas Constitution Section 50(a)(6). To assist in this endeavor, the *Texas Home Equity Affidavit and Agreement First Lien* (Form 3185) must be prepared and recorded in connection with each Texas Section 50(a)(6) loan transaction.

Fannie Mae suggests that a lender also require each borrower to sign a closing receipt that itemizes the documents that they received at closing.

For additional Texas Section 50(a)(6) loan documentation (also called “Texas Home Equity” documentation) refer to Standard Texas Home Equity Notes (under Standard Instruments) and Texas Home Equity Security Instrument (under Negotiated Instruments).

> **Note**: Texas Section 50(a)(6) loans are not eligible for delivery as eMortgages.

Title Insurance

For all Texas Section 50(a)(6) loans, a title insurance policy written on Texas Land Title Association forms (standard or short form), supplemented by an Equity Loan Mortgage Endorsement (Form T-42) and a *Supplemental Coverage Equity Loan Mortgage Endorsement* (Form T-42.1), is required.

> **Note**: There may be no exceptions or deletions to the coverage provided by Paragraphs 2(a) through (e) (other than an exception or deletion relating to the exclusion of agricultural homestead property) of the T-42 endorsement. The endorsement must include the optional coverage provided by Paragraph 2(f), as well as the additional coverage provided by Endorsement T-42.1.

The title insurance policy cannot include language that:

- excludes coverage for a title defect that arises because financed origination expenses are held not to be "reasonable costs necessary to refinance", or
- defines the "reasonable costs necessary to refinance" requirement as a "consumer credit protection" law since the standard title policy excludes coverage when lien validity is questioned due to a failure to comply with consumer credit protection laws.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2019-04	May 01, 2019

B5-4.1-04, Texas Section 50(a)(6) Loan Delivery and Servicing Considerations (12/19/2017)

Introduction

This topic contains information on Texas Section 50(a)(6) loan delivery considerations, including:

- Special Feature Codes and Pricing
- Servicing

Special Feature Codes and Pricing

All Texas Section 50(a)(6) loans must be identified at delivery with SFC 304. In addition, the lender must enter the following special feature codes at loan delivery:

- SFC 003 for each Texas Section 50(a)(6) loan that is classified as a cash-out refinance under Fannie Mae's policy, and
- SFC 007 for each Texas Section 50(a)(6) loan that is classified as a limited cash-out refinance under Fannie Mae's policy.

If the lender determines that a loan secured by a mortgage on a homestead property in Texas is classified as a cash-out refinance per this Guide but is not a Texas Section 50(a)(6) loan, then the loan should be delivered as a standard (non-Texas Section 50(a)(6) loan) cash-out refinance transaction and should not be identified with SFC 304.

At delivery, all Texas Section 50(a)(6) loans that are classified as cash-out refinance transactions are subject to the loan-level price adjustments applicable to cash-out refinance loans per the Lender Contract.

Servicing

A lender that delivers a Texas Section 50(a)(6) loan to Fannie Mae may either service the loan, enter into a subservicing arrangement with another lender, or assign the servicing concurrent with its delivery to Fannie Mae.

Except as otherwise noted in the *Selling Guide* or *Servicing Guide*, standard Fannie Mae servicing requirements apply to Texas Section 50(a)(6) loans.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Section B5-4.2, Other Property-Specific Products

B5-4.2-01, Native American Conventional Lending Initiative (NACLI) (06/26/2012)

Introduction

This topic contains information on Native American Conventional Lending Initiative (NACLI), including:

Overview

As part of Fannie Mae's commitment to offering conventional loan products to address special housing needs of the underserved, Fannie Mae developed its set of Native American conventional Housing Initiatives.

Through these initiatives, Fannie Mae purchases conventional mortgages that are made to Native Americans.

Lender Eligibility

Any lender that is interested in participating in NACLI must obtain separate approval from Fannie Mae.

Upon approval, the lender will obtain the applicable set of terms and conditions that may vary for the specific tribal community.

Eligibility Requirements

Tribes that have jurisdiction over lands restricted to tribal members are eligible.

Before any lending may take place, a tribe's ordinances must be reviewed to ensure that there is appropriate support for mortgage lending. This includes Fannie Mae's confirmation that the tribe has appropriate ordinances involving such issues as the recording of mortgages, resale, lien priority, foreclosure, and eviction.

Special Feature Codes

A lender must report SFC 221 for a mortgage originated under NACLI when it delivers a mortgage originated under Fannie Mae's Native American Housing Initiatives.

In addition, the lender should report all other applicable special feature codes that are needed to describe other special mortgage characteristics.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B5-4.2-02, Disaster-Related Limited Cash-Out Refinance Flexibilities (06/26/2012)

Introduction

This topic contains information on disaster-related limited cash-out refinance flexibilities, including:

Disaster-Related Limited Cash-Out Refinance Flexibilities Overview

Fannie Mae provides flexibilities to standard limited cash-out refinance policies for borrowers who have been impacted by a natural disaster. These guidelines:

- permit the refinance of non-purchase money subordinate loans obtained to finance disaster-related property repairs, and
- provide for a higher cash-out amount to reimburse borrowers for documented out-of-pocket expenses related to disaster-related property repairs.

This topic outlines the specific eligibility requirements for these additional flexibilities.

Location of Property

These flexibilities may be applied to loans on properties located in any counties, cities, or parishes that are designated by the Federal Emergency Management Agency (FEMA) as eligible for Individual Assistance as a result of a natural disaster (these areas are referred to as “FEMA Disaster Areas”).

Occupancy Status

These guidelines are applicable only to loans secured by the borrower's principal residence, and may not be used in connection with second homes or investment properties.

Transaction Types

A borrower may obtain:

- a limited cash-out refinance to consolidate non-purchase money subordinate financing used for repair of disaster-related property damage to their principal residence. To be eligible, the subordinate financing, including any draws on an existing HELOC, must post-date the disaster. However, the borrower may pay off the entire HELOC through the limited cash-out refinance, provided that a portion of the amount was used for disaster-related expenses to repair property damage to the principal residence.
- cash-out for reimbursement of documented out-of-pocket expenses for the completed repair of disaster-related property damage to their principal residence in an amount not to exceed the lesser of 10% of the balance of the new refinance loan or $15,000.

All existing guidelines and requirements for limited cash-out refinance transactions listed in this section continue to apply, including those for Texas Section 50(a)(6) loans (see B5-4.1-01, Texas Section 50(a)(6) Loans).

Documentation of Eligible Disaster-Related Expenses and Financing

The lender must document that the subordinate financing (or a portion of the HELOC) or the entire requested cash-out amount represents funds used for completed disaster-related property repairs.

Generally, documentation includes copies of receipts, work orders, canceled checks, etc., related to the cost of materials and labor.

The borrower may not receive any reimbursement for amounts representing their sweat equity in connection with the repairs.

> **Note**: All documentation must post-date the disaster and be directly related to completed repairs of damage to the property resulting from the disaster.

Limited Cash-Out Refinance DU Requirements

Certain messages on the DU Underwriting Findings Report will not apply to loans originated under the disaster-related limited cash-out refinance requirements.

When the loan complies with the requirements of this section, lenders may disregard the following messages:

- This case is ineligible because the amount of cash taken out of the subject property equity exceeds the limit of 2% of the loan amount or $2,000 for limited cash-out refinances.

- If any subordinate lien that was not used to acquire the subject property is to be paid off with first mortgage proceeds, the loan is ineligible as a limited cash-out refinance. The loan must be resubmitted as a cash-out refinance.
- If subordinate liens are being paid off with the first mortgage proceeds, obtain written documentation that the subordinate lien was used to acquire the subject property.

Fannie Mae will grant the lender the limited waiver of underwriting representations and warranties for these loans, including those mortgages that receive an Approve/Ineligible recommendation, provided the loan meets the requirements contained in this section as well as those contained in A2-2-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU.

Appraisal Requirements

The appraisal for the property must follow standard requirements contained in Chapter B4–1, Appraisal Guidelines.

Those guidelines allow an appraisal to be based on the “as is” condition of the property provided there are no conditions that affect the safety, soundness, or structural integrity of the property. If those conditions do exist, the property must be appraised subject to completion of the specific alterations or repairs (“as repaired”) and a completion report must be obtained from the appraiser prior to delivery of the mortgage to Fannie Mae.

Delivery

Loans originated in accordance with this section must be delivered to Fannie Mae no later than two years from the date of the disaster declaration by FEMA.

Special Feature Codes

Loans delivered under these guidelines must include SFC 416 as part of the delivery data.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B5-4.2-03, Loans Secured by HomePath Properties (02/02/2022)

Introduction

This topic describes exceptions to standard policies that are permitted for HomePath properties and delivery requirements, including:

- Eligibility Exceptions for HomePath Properties
- Interested Party Contributions
- Certain Resale Restrictions
- Special Feature Code for HomePath Properties using the IPC Exception
- Loan-level Price Adjustment Credit for Appraisals

Eligibility Exceptions for HomePath Properties

A HomePath property is a property that was owned and sold by Fannie Mae through a transaction resulting in the disposition of its real estate owned (REO). When the property secured by the mortgage is a HomePath property, Fannie Mae will allow certain exceptions to standard *Selling Guide* eligibility policies as described below.

Interested Party Contributions

In cases where the subject property is a HomePath property, an exception to the maximum interested party contribution (IPC) limit for principal residences is permitted, as described in the table below. All other requirements related to IPCs, as described in B3-4.1-02, Interested Party Contributions (IPCs), continue to apply.

Occupancy Type	LTV/CLTV Ratio	Maximum IPC
Principal Residence	Greater than 90%	6%

> **Note:** DU will issue a message if the amount of the IPC appears to exceed the standard limits described in B3-4.1-02, Interested Party Contributions (IPCs). (DU does not apply the higher limit even if DU identifies the property as a HomePath property.) The lender must determine whether the subject transaction is a purchase of a HomePath property eligible for the higher IPC limit and document the loan file accordingly.

Certain Resale Restrictions

Notwithstanding any other provision of this *Selling Guide*, loans subject to resale restrictions imposed by Fannie Mae as the seller of its REO property are eligible.

Special Feature Code for HomePath Properties using the IPC Exception

Lenders must use SFC 679 when delivering a loan secured by a HomePath property if the IPC exception applies to the transaction. This code is in addition to any other special feature codes that may apply. SFC 679 is not required for a loan secured by a HomePath property that is subject solely to the resale restriction exception.

Loan-level Price Adjustment Credit for Appraisals

The lender will receive a $500 loan-level price adjustment credit when Fannie Mae purchases a loan secured by a HomePath property. The following requirements apply:

- The loan must be a purchase transaction for a principal residence underwritten with DU.
- The lender must obtain an appraisal for the transaction and pass the entire credit to the borrower to cover the cost of the appraisal.
- The lender must confirm the seller of the property is Fannie Mae (even though DU may identify the property as a HomePath property).
- The loan must be delivered with SFC 871.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-01	February 02, 2022

Chapter B5-5, Community Seconds, Loans with Resale Restrictions, and Shared Equity Transactions

Introduction

This chapter describes product policies and requirements for Community Seconds, loans with resale restrictions, and shared equity transactions.

Section B5-5.1, Community Seconds

B5-5.1-01, Community Seconds Loans (05/03/2023)

Introduction

This topic contains information on Community Seconds loans, including:

- Overview
- Review of Community Seconds Programs

Overview

A Community Seconds loan is subordinate financing that is originated under an affordable housing program. Fannie Mae does not purchase Community Seconds loans; however, first mortgages that are originated with this type of subordinate financing are eligible for purchase by Fannie Mae in accordance with the requirements of this Guide.

Review of Community Seconds Programs

The lender is responsible for reviewing Community Seconds programs to ensure the programs comply with this Guide. The *Community Seconds Checklist* includes a checklist that lenders may use to evaluate key considerations in determining whether to grant approval of a Community Seconds program.

The following table provides lender requirements for reviewing a Community Seconds program.

✓	**The lender must...**
	Review all documents applicable to the program, including the legal documents (such as the promissory note and the security instrument), the program description, and any other pertinent documents to confirm compliance with *Section B5-5.1, Community Seconds*.
	Determine the mortgage for the Community Seconds loan is clearly subordinate to the first mortgage. The title insurance in effect must ensure priority of the first mortgage being delivered to Fannie Mae by showing the Community Seconds loan in a subordinate position.
	Confirm the program allows the holder of the first mortgage to foreclose and acquire title to the property free and clear of all interests of the Community Seconds provider. **Note:** If a Community Seconds provider assumes the first mortgage and cures all outstanding defaults under that mortgage, the Community Seconds financing may be maintained.

✓	**The lender must...**
	If applicable, evaluate any recorded deed restrictions or option agreements, or local ordinances that impose similar restrictions, to confirm compliance with other Fannie Mae policies, such as those applicable to resale restrictions (see *Section B5-5.2, Loans with Resale Restrictions* and *Section B5-5.3, Shared Equity Transactions*).

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-04	May 03, 2023

B5-5.1-02, Community Seconds Loan Eligibility (05/03/2023)

Introduction

This topic contains information regarding Community Seconds loan eligibility, including:

- Eligible Community Seconds Providers
- Acceptable Uses
- Additional Eligibility Requirements
- Rural Development Section 502 Leveraged (Blended) Loan Program
- Minimum Borrower Contribution Requirements
- Repayment Structure
- Pricing and Delivery Considerations

Eligible Community Seconds Providers

A Community Seconds loan must only be funded by one of the following entities:

- a federal agency, state, county, or similar political subdivision of a state;

- any city, town, village, or borough of a state that
  - has a local government and that has been created by a special legislative act,
  - has been otherwise individually incorporated or chartered pursuant to state law, or
  - is recognized as such under the constitution or by the laws of the state in which it is located,
- a housing finance agency as defined in 24 C.F.R. §266.5;
- a nonprofit organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code;
- a regional Federal Home Loan Bank under one of its affordable housing programs;
- an employer where a borrower is an employee (see B3-4.3-08, Employer Assistance);
- a lender, only in connection with an employer-guaranteed Community Seconds loan as part of its affordable housing program; or
- an Indian tribe on the most current list published by the Secretary of the Interior pursuant to 25 U.S.C. §5131.

> **Note:** A corporation or other legal entity created by or owned in whole or in part by such an Indian tribe is not eligible unless it qualifies as a Tribally Designated Housing Entity, as defined in 25 U.S.C. §4103(22).

A Community Seconds provider must not be the property seller or other interested party in the transaction, except when they are the provider of a shared equity program or sweat equity program. See B5-5.3-03, Shared Equity Transactions: Eligibility, Underwriting and Collateral Requirements and B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements.

Acceptable Uses

A Community Seconds loan must be used to fund one or more of the following:

- all or part of the down payment, provided the Community Seconds loan is not funded in any way through the first mortgage, such as premium pricing;
- closing costs;
- renovations to the property (including energy-related improvements); or
- a permanent interest rate buydown.

In some cases, a Community Seconds loan may not involve the advancement of funds, but instead may facilitate affordability through a subsidized sales price and/or requirements related to the future sale of the home. The eligible provider may secure a Community Seconds loan against the property representing the difference between the market value and reduced sales price accepted by the seller (referred to as the subsidy). Typically, the subordinate loan has deferred payments and may be forgiven. The subordinate loan may also enforce requirements that prevent the borrower from selling the property outside of the confines of the program. The terms of the loan may not, however, restrict the sale of the property upon foreclosure or acceptance of a deed-in-lieu of foreclosure.

- When a subsidy is provided, the lender may use the Affordable LTV calculation described in B5-5.3-03, Shared Equity Transactions: Eligibility, Underwriting and Collateral Requirements.
- When a subsidy is provided and the property has resale restrictions that limit both income eligibility and impose a maximum resale price, the provisions in *Section B5-5.3, Shared Equity Transactions* also apply.

Additional Eligibility Requirements

The following table provides additional eligibility requirements for Community Seconds loans originated in connection with a first mortgage purchased by Fannie Mae.

Criteria	Requirements
First mortgage eligibility	The first mortgage must be fixed-rate or an ARM with an initial fixed-rate period of five years or more, and otherwise comply with this Guide.
Maximum LTV and CLTV ratios	The maximum LTV is based on the first mortgage LTV requirement. The maximum CLTV is 105% with a Community Seconds loan, unless the first mortgage has an independent CLTV cap (such as the CLTV cap for manufactured housing that does not meet MH Advantage requirements). Refer to the *Eligibility Matrix* for additional information.
Loan purpose	The transaction is limited to a purchase or limited cash-out refinance. For a limited cash-out refinance, the Community Seconds mortgage holder must acknowledge their lien position by executing a resubordination agreement. The agreement must be recorded to ensure enforceability.
Property and occupancy	The subject property must be a one- to four-unit principal residence. If the loan is secured by a manufactured home, it must comply with all manufactured home policies including LTV and CLTV ratio requirements.
Income limits	If income limits are imposed by both the Community Seconds provider and the first mortgage, the more restrictive will apply.

> **Note:** Loans secured by community land trusts properties and properties with income and resale price restrictions have additional requirements. See B5-5.3-03, Shared Equity Transactions: Eligibility, Underwriting and Collateral Requirements.

Rural Development Section 502 Leveraged (Blended) Loan Program

A subordinate lien originated in connection with a conventional first mortgage under the RD Section 502 Leveraged (Blended) Loan Program is eligible for the Community Seconds program. The standard review of Community Seconds programs described in B5-5.1-01, Community Seconds Loans, is not required; however, the subordinate lien must meet all RD Guidelines. See B6-1-05, Eligible RD-Guaranteed Mortgages for additional information.

Minimum Borrower Contribution Requirements

The following table describes the minimum borrower contribution requirements for transactions with a Community Seconds loan.

LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
80% or less	One- to four-unit principal residence	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a Community Seconds loan.
Greater than 80%	One-unit principal residence	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a Community Seconds loan.
	Two- to four-unit principal residence	The borrower must make a 5% minimum contribution from their own funds. After the minimum borrower contribution has been met, a Community Seconds loan can be used as described in *Acceptable Uses* above.

> **Note:** See B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements, for additional information about minimum borrower contribution and down payment requirements, including sweat equity requirements, for HomeReady loans.

Repayment Structure

Repayment of the Community Seconds loan may be structured in any number of ways provided the terms are consistent with those Fannie Mae considers acceptable. This includes:

- requiring fully amortizing, equal monthly payments;
- deferring payments for some period before changing to fully amortizing, equal monthly payments;
- deferring payments over the entire term, unless the loan is paid off or the property is sold before the maturity date of the loan; or
- forgiving debt over time.

When the borrower's employer is the provider of the Community Seconds loan, the financing terms may provide for the employer to require full repayment of the debt if the borrower's employment is terminated (either voluntarily or involuntarily, for reasons other than those related to disability) before the maturity date of the Community Seconds loan.

When repayment is required, the maturity date of the Community Seconds loan, or the due date of any balloon payment on the Community Seconds loan, cannot be before the earlier of:

- 15 years after the note date of the first mortgage, or
- the maturity date of the first mortgage.

When repayment of the Community Seconds loan is deferred for five years or more, a lender is not required to include a monthly payment for the Community Seconds loan in its calculation of the borrower's debt-to-income ratio. When repayment is deferred for fewer than five years, the lender must include the monthly payment amount that will be required after the end of the deferral period in its calculation.

The Community Seconds loan must be a fixed-rate loan and the interest rate may not be more than 2% (200 basis points) higher than the initial note rate of the first mortgage.

> **Note:** Interest that is imposed as a penalty should the loan be declared in default and called due and

> payable under its terms is not subject to this interest rate cap.

The Community Seconds loan may not allow for negative amortization, however, because negative amortization will occur if the interest rate is greater than zero and the payment of interest is ever deferred, negative amortization will be acceptable provided:

- the amount of scheduled monthly interest deferred on the Community Seconds loan for any full calendar month within the initial five years (of the Community Seconds loan) may never exceed the scheduled monthly principal payment of the first mortgage for that month (see below for an example);
- interest is accrued on a simple-interest basis at a fixed rate; and
- the accrued interest is fully deferred until
  - sale or transfer of the property,
  - the loan is refinanced or the first mortgage is paid in full, or
  - declaration of an event of default under the subordinate note or the security instrument.

Example

In the following example, the first mortgage is eligible for purchase by Fannie Mae as the amount of deferred, accrued interest for July on the Community Seconds loan is less than the scheduled principal payment for the first mortgage for the same month.

Note date: May **First payment date: July**	**First Mortgage**	**Community Seconds Loan**
UPB	$150,000	$30,000
Interest rate	5%	7%
Maximum accrued, deferred interest July	NA	$175.00 ($30,000 @ 7% /12)
Scheduled principal payment July	$180.23	NA

Pricing and Delivery Considerations

Special Feature Codes and Other Reporting

The lender must report SFC 118 and all other applicable special feature codes when it delivers a first mortgage that is originated as part of a Community Seconds transaction.

Loan-Level Price Adjustments

Loan-level price adjustments otherwise applicable to subordinate financing do not apply.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-04	May 03, 2023

B5-5.1-03, Community Seconds: Shared Appreciation Transactions (05/03/2023)

Introduction

This topic contains information on shared appreciation transactions, including:

- Overview
- Provider Requirements
- Eligibility
- Repayment Distribution Requirements
- Delivery Requirements

Overview

Shared appreciation programs are a type of Community Seconds offering that create affordability for eligible borrowers by providing down payment, closing cost assistance, and/or funding for renovations to the property, including energy-related improvements, in exchange for repayment of an interest-free loan and a share in any future appreciation to the property. The program provider receives the original amount advanced and a predetermined percentage of any appreciation in value upon the occurrence of specified events defined in the program's legal documentation. Events may include the subsequent sale (or other transfer) of the home and be dependent on the availability of funds.

Appreciation in value is defined as the positive difference between the original sales price of the property and the subsequent value of the property determined in accordance with the shared appreciation program's legal documents (which may but is not required to take into account amounts paid by the borrower to improve the property with the knowledge or consent of the shared appreciation program).

> **Note:** This topic pertains only to shared appreciation loans. For information on shared equity transactions, see *Section B5-5.3, Shared Equity Transactions*.

Provider Requirements

The provider of a shared appreciation loan must

- be an eligible Community Seconds provider,
- be responsible for the administration and oversight of the program, and
- advance its own funds (or those of other parties for whom it is administering the program, so long as each such party is an eligible Community Seconds provider) to the borrower.

> **Note:** The lender of the first mortgage may advance the funds for the shared appreciation loan if within six months of loan closing the lender assigns the loan to a state housing agency. In this scenario, the state housing agency will be considered an acceptable Community Seconds shared appreciation provider.

Eligibility

Shared appreciation loans are only eligible as Community Seconds loans. Fannie Mae will purchase first mortgages that are originated with this type of subordinate financing, but the first mortgage must be a purchase or limited cash-out refinance transaction and otherwise meet the requirements of this Guide.

The following table provides additional eligibility requirements for shared appreciation loans.

✓	Requirements
	The shared appreciation loan must comply with the requirements in B5-5.1-01, Community Seconds Loans and B5-5.1-02, Community Seconds Loan Eligibility.
	Interest (deferred or otherwise) is not permitted, other than default interest on overdue principal or a share in appreciation.
	Expenses or fees must not be imposed on the borrower after loan origination, except in cases of default or in connection with borrower-initiated transactions, as defined in the program's legal documentation.
	After completion of the obligations to the shared appreciation provider (or its assignee), including payment of any shared appreciation in value, the borrower must not have any further obligation to the shared appreciation provider or any assignee.

Repayment Distribution Requirements

The following table describes the requirements related to repayment of a shared appreciation loan.

Criteria	Requirements
Repayment of the Community Seconds loan and payout of appreciation	The shared appreciation loan and any share in appreciation must only be payable in connection with one or more of the following events as specified in the shared appreciation program's legal documentation: • a specific date, which must not be earlier than the scheduled maturity date of the first mortgage granted in connection with the purchase of the property; • repayment in full of the first mortgage (except when the shared appreciation loan is being resubordinated in connection with a refinance; • acceleration of the first mortgage in accordance with its terms (for purchase mortgages only, this is limited to acceleration after the conclusion of loss mitigation or other measures to cure a delinquency); or • an unauthorized transfer of the property, or an event of default relating to the failure to maintain collateral (after notice and an opportunity to cure). In addition, the program's legal documents must allow the borrower an option to prepay the loan in its entirety at any time and to pay all other amounts due to the provider, including any shared appreciation. If the shared appreciation loan becomes due and payable, all amounts owed to the first mortgagee must be paid first, followed by other entitled parties, such as the shared appreciation provider and the borrower.
Basis for determining the amount of appreciation	In the program's legal documentation, the appreciation in value must be based on one of the following: • When the property is sold on the open market, the appreciation must be based on the actual sales price of the property. • In any other instance, the appreciation must be based on an appraisal from a state-licensed or state-certified appraiser obtained in accordance with the program's terms, or if explicitly indicated as permitted in the program's legal documents, a current value established by a third-party, commercial automated valuation model (AVM). For limited cash-out refinances, appreciation in value may be based on any method included in the program's legal documentation.

Criteria	Requirements
Provider's share of appreciation	Except as permitted below, the provider's share of appreciation must not exceed the "Standard Percentage" which is derived by dividing the original shared appreciation loan amount by the original sales price. For example, if the provider contributed a 10% down payment towards the purchase of a home, the provider cannot share in appreciation greater than 10% (the Standard Percentage) when the home is sold. **Exceptions** The provider's share of appreciation may be greater than the Standard Percentage in either of the two scenarios below: 1. The borrower must first recover the following (which will result in a reduction in the amount of appreciation) before the provider is able to share in appreciation: • any portion of the down payment that came from the borrower's own funds, • reasonable costs of selling the property (such as a sales commission), • the costs of any improvements made by the borrower to the property (provided they were allowed under the program's legal documentation and not otherwise taken into account in determining the amount of appreciation), and • the principal portion of all payments the borrower made on the first mortgage. 2. The provider may share in appreciation greater than the Standard Percentage if • in the first year following origination of the shared appreciation loan, the share does not initially exceed 75%, or • after the first year following origination of the shared appreciation loan, the share is reduced at least proportionally each year, so the share is equal to or less than the Standard Percentage no later than five years following origination of the shared appreciation loan. For example, if the provider's share of appreciation is 70% in the first year, and the Standard Percentage is 10%, then the provider's share must decrease by at least 15% annually (70% minus 10%, divided by 4), so that in the second, third, and fourth years, the provider's share of appreciation must not exceed 55%, 40%, and 25%, respectively.

Delivery Requirements

Lenders must report SFC 176 when delivering a loan with shared appreciation.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-04	May 03, 2023

Section B5-5.2, Loans with Resale Restrictions

B5-5.2-01, Loans With Resale Restrictions: General Information (05/03/2023)

Introduction

This topic contains general information on loans with resale restrictions, including:

Overview

Resale restrictions are a right in perpetuity or for a certain number of years, stated in the form of a restriction, easement, covenant, or condition in any deed, mortgage, ground lease, agreement, or other instrument executed by or on behalf of the owner of the land. The resale restrictions may limit the occupancy of all or part of the land to individuals meeting certain conditions, such as age (senior communities must comply with applicable law). When resale restrictions are included in a mortgage, the terms must comply with this Guide.

> **Note:** This topic does not pertain to loans that are part of shared equity transactions, which have resale restrictions that limit both income eligibility and impose a maximum resale price. See *Section B5-5.3, Shared Equity Transactions* for additional information.

Allowable Resale Restrictions

Fannie Mae will purchase loans that are subject to one or more of the following types of resale restrictions:

- income limits,
- age-related requirements,
- employment-related requirements,
- occupancy requirements,
- first-time homebuyer requirements, and
- restrictions on group homes or homes that are principally used to serve residents with disabilities.

Some restrictions are likely to occur only in combination with others and it is permissible for more than one resale restriction to apply to a single loan.

Duration of Resale Restrictions

Fannie Mae will purchase loans secured by properties subject to resale restrictions in the following circumstances:

- when the restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period),
- upon the recordation of a deed-in-lieu of foreclosure, or
- when the resale restrictions survive foreclosure.

> **Note:** If the resale restrictions survive foreclosure, the lender represents and warrants that the resale restrictions do not impair the servicer's ability to foreclose on the restricted property.

There are no restrictions on the length of the period in which the resale restrictions may remain in place on the property.

Title Insurance Requirements

The source and terms of the resale restrictions must be included in the public land records so that they are readily identifiable in a routine title search.

Default Remedies

The presence of resale restrictions must not impair Fannie Mae's legal rights to cure a default under the loan terms, to foreclose on the subject property, or to otherwise protect Fannie Mae's interests under the mortgage.

Rights to Insurance Settlements and Condemnation Proceeds

Fannie Mae must have first claim to insurance settlements and condemnation proceeds.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-04	May 03, 2023

B5-5.2-02, Loans with Resale Restrictions: Eligibility, Collateral and Delivery Requirements (05/03/2023)

Introduction

This topic contains information on loans with resale restrictions loan and borrower eligibility, collateral and delivery requirements including:

- Eligibility Requirements
- Appraisal Requirements
- Pricing and Delivery Considerations

Eligibility Requirements

The following table describes the eligibility requirements for loans with resale restrictions.

Criteria	Requirements
Loan Eligibility	The loan must be a fixed-rate or ARM with an initial fixed period of five years or more and must comply with this Guide.
Borrower Eligibility	Borrowers must meet applicable criteria of the deed restriction. If income limit requirements are imposed by both the resale restrictions and the terms of the mortgage, the most restrictive will apply. **Note:** Age-related restrictions generally apply to the unit occupant and frequently require only one occupant to be aged 55 and over. In such a case, the borrower could be younger than 55 provided there is a unit occupant aged 55 and over. This occupant can be a non-borrower household member or a renter in the case of an investment property.
Property Type	One- and two-unit properties are eligible, including PUDs, condos, and co-ops. Manufactured homes are not eligible unless they are located in a PERS-approved project.

Appraisal Requirements

In cases where the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or upon recordation of a deed-in-lieu of foreclosure, the appraisal should reflect the market value of the property without resale restrictions.

The lender must ensure that the borrower and appraiser are aware of the resale restrictions and should advise the appraiser that they must include the following statement in the appraisal report:

"This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure."

In cases where the resale restrictions survive foreclosure or a deed-in-lieu of foreclosure, the appraisal must reflect the impact the restrictions have on value and be supported by comparable sales with similar restrictions.

The appraisal report must note the existence of the resale restrictions and comment on any impact the resale restrictions have on the property's value and marketability.

Pricing and Delivery Considerations

Pricing

There are no specific LLPAs required for loans with resale restrictions. All other price adjustments that are otherwise applicable to the transaction will apply. For a list of current applicable LLPAs, see the *Loan-Level Price Adjustment (LLPA) Matrix* .

Special Feature Codes

Lenders must report SFC 631 when delivering a loan secured by a property with resale restrictions that survive foreclosure or a deed-in-lieu of foreclosure.

No special feature code is required when delivering a loan secured by a property with resale restrictions that terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or the recordation of a deed-in-lieu of foreclosure unless the loan is part of a shared equity transaction. See B5-5.3-03, Shared Equity Transactions: Eligibility, Underwriting and Collateral Requirements for additional information.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-04	May 03, 2023

Section B5-5.3, Shared Equity Transactions

B5-5.3-01, Shared Equity Overview (05/03/2023)

Introduction

This topic contains information on shared equity transactions, including:

- Overview
- Community Land Trusts
- Income and Resale Price Restrictions

Overview

Shared equity programs, sometimes called "below-market programs," create long-term affordability by both limiting income eligibility and imposing a maximum resale price. Shared equity providers typically make a one-time investment in a property by subsidizing the sales price for the first buyer and recycling the subsidy for subsequent, income-eligible buyers of the same property. In exchange for purchasing a home below market value, the homeowners agree to restrictions on the future sale of the home, including limitations on sales price that maintain affordability for the next buyer.

Loans originated in connection with the following shared equity programs are eligible for purchase by Fannie Mae:

- community land trusts,
- income and resale price restrictions,
- limited or shared equity co-ops.

It is against Fannie Mae policy to compel borrowers to participate in arbitration to resolve disputes regarding their mortgage loan. See B8-3-02, Special Note Provisions and Language Requirements. Similarly, Fannie Mae will not purchase shared equity loans where the borrower is required to submit to arbitration to resolve disputes with the shared equity program unless the mandatory arbitration provision provides, or is amended to provide, that, in the event of a transfer or sale of the related mortgage or an interest in the related mortgage loan to Fannie Mae, the mandatory arbitration clause immediately and automatically becomes null and void and cannot be reinstated. This does not prohibit the borrower and the shared equity program from engaging voluntarily in arbitration, mediation, or other alternative methods of dispute resolution.

> **Note:** This topic focuses on community land trusts and income and resale price restrictions. For information on limited or shared equity co-ops, see *Chapter B4-2, Project Standards*.

Community Land Trusts

Community land trusts preserve long-term affordable housing by purchasing homes in their communities, then selling the homes to income-eligible buyers while retaining ownership of the land. The homeowners lease the land from the community land trust using a long-term ground lease with affordable monthly ground rents. The ground lease includes provisions that preserve long-term affordability, including restrictions on the future sales price of the home and income levels of future homeowners.

> **Note:** If there are resale restrictions not contained in the ground lease, the lender should contact its Fannie Mae Account Team for additional guidance.

Income and Resale Price Restrictions

Resale restrictions are a right in perpetuity or for a certain number of years and are binding on current and future property owners. They remain in effect until they are formally removed or modified, or terminate in accordance with their terms, such as at a foreclosure sale or upon acceptance of a deed-in-lieu.

Income and resale price restrictions help maintain long-term affordability for shared equity programs. These programs include both an income and a maximum resale price restriction that effectively subsidize the sales prices for income-eligible buyers, and in exchange for the subsidy, the buyers agree to resale restrictions that limit the future sales price of the home to preserve affordability for future income-eligible buyers.

For information on other types of resale restrictions, see B5-5.2-01, Loans With Resale Restrictions: General Information and B5-5.2-02, Loans with Resale Restrictions: Eligibility, Collateral and Delivery Requirements.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-04	May 03, 2023

B5-5.3-02, Shared Equity Transactions: General Requirements (05/03/2023)

Introduction

This topic contains information on shared equity transactions, including:

- General Requirements
- Rights to Insurance Settlements and Condemnation Proceeds
- Notification to Third Parties

General Requirements

The following table describes general requirements for shared equity transactions.

Criteria	Community Land Trusts	Income and Resale Price Restrictions
Required legal documentation	The lender must review the community land trust's ground lease to confirm that it is based upon either the Grounded Solutions Network *2011 CLT Network Model Ground Lease* or the *Institute for Community Economics (ICE) Model Ground Lease*, both of which are available on the Grounded Solutions Network website. If the ground lease is not based on either of these model leases, the lender must obtain Fannie Mae's approval of the ground lease by contacting their Fannie Mae Account Team. The term of the estate created by the ground lease must extend for at least five years beyond the maturity date of the loan that is delivered to Fannie Mae. Any additional terms added to these model ground leases, other than those required by applicable law, may not override the rights of the consumer provided under the model ground leases.	The lender must review the resale restrictions to confirm compliance with this topic. The terms of the resale restrictions can be found in an existing recorded legal agreement or in the legal documentation to be recorded in connection with the borrower's purchase of the property. Examples of such legal agreements: • The Grounded Solutions Network *2021 Model Declaration of Affordability Covenants with Refinance and Resale Restriction and Purchase Option*, which is available on the Grounded Solutions Network website. Loans using this agreement must be delivered with SFC 177. • A declaration of covenants, often referred to as a deed restriction or deed-restricted covenant. • Any other covenant or provision of an agreement or deed that is recorded against the land. • The terms and conditions of a subordinate mortgage that comply with *Section B5-5.1, Community Seconds*. **Note:** Certain requirements will not apply to shared equity transactions, such as those in .B5-5.1-03, Community Seconds Shared Appreciation Transactions If the requirements for the Community Seconds loan, the first mortgage, and the shared equity program are different, the most restrictive requirements will apply.

Criteria	Community Land Trusts	Income and Resale Price Restrictions
Resale restriction requirements	The community land trust ground lease must include restrictions to limit future property buyers to those with specified income levels and limit the maximum sales price of the property. The resale restrictions in the ground lease must terminate automatically upon foreclosure (or the expiration of any applicable redemption period) of the leasehold mortgage, or acceptance of a deed-in-lieu for foreclosure. After any resale restrictions have been terminated, they may not be automatically reinstated for subsequent buyers of the property.	The resale restriction terms must limit future property buyers to those with specified income levels and limit the maximum sales price of the property. If the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or acceptance of a deed-in-lieu of foreclosure, the provider is not entitled to obtain any proceeds from future sale(s) or transfer(s) of the property after foreclosure or acceptance of a deed-in-lieu. After any resale restrictions have been terminated, they may not be automatically reinstated for subsequent buyers of the property. If the resale restrictions survive foreclosure or a deed-in-lieu of foreclosure, the provider is not entitled to obtain any proceeds from the initial sale or transfer of the property after foreclosure, or from the foreclosing mortgage holder who obtained the property at foreclosure or from a deed-in-lieu of foreclosure.

Additional requirements for properties subject to private transfer fees	For shared equity loans secured by properties subject to private transfer fee covenants and with note dates on or after July 1, 2023, the recorded instrument containing the private transfer fee covenant must
	• include restrictions on the terms of transfer of the subject property limiting both the maximum income of the transferee(s) and the maximum permissible sales price that will apply for at least 30 years after recordation; and
	• provide that the entity entitled to enforce the private transfer fee covenant has
	  ◦ a preemptive option to purchase the property from the homeowner at resale; and
	  ◦ the power to review and approve all refinance loans and home equity lines of credit to be secured by the property.
	Grounded Solutions Network publishes the *2011 National Community Land Trust Network (NCLTN) Model Ground Lease*, the *Institute for Community Economics (ICE) Model Ground Lease*, and the *2021 Model Declaration of Affordability Covenants with Refinance and Resale Restriction and Purchase Option* ("Model Forms"). These Model Forms contain provisions that, if included in the recorded instrument for the property, will satisfy the above requirements.
	Special Feature Codes
	Lenders must report SFC 181 when delivering shared equity loans with a private transfer fee covenant.
	Shared equity loans secured by properties without private transfer fee covenants are not subject to the above requirements. For more information on private transfer fee covenants, see *Private Transfer Fee Covenants* in B2-1.5-02, Loan Eligibility.	

Criteria	Community Land Trusts	Income and Resale Price Restrictions
Required riders and amendments	Lenders must ensure that any loan secured by a community land trust property and delivered to Fannie Mae is supported by the appropriate leasehold interest documents, including the community land trust ground lease and the *Community Land Trust Ground Lease Rider* (Form 2100). Form 2100 must be executed by the borrower and the ground lessor and recorded along with the ground lease. This form was developed for use with either the Grounded Solutions Network *2011 CLT Network Model Ground Lease* or the *ICE Model Ground Lease*. The form • ensures that the ground lease is in conformity with Fannie Mae requirements for community land trust loans, and • removes the resale restrictions as well as any other restrictions that may be included in the ground lease that could affect the value of the property. The land records for the subject property must include adoption of the terms and conditions that are incorporated in this ground lease rider. Fannie Mae's written approval is required if Form 2100 is modified or is not executed.	Lenders must ensure that any loan secured by a property with income and resale price restrictions that is purchased by Fannie Mae is accompanied by the *Shared Equity Amendment* (Form 2200). The Amendment must be executed by the shared equity provider (and any other parties to the instrument that created the resale restrictions), the borrower, and the lender, and must be recorded. Form 2200 assures consistent standards for all loans secured by properties with income and resale price restrictions that are delivered to Fannie Mae. Fannie Mae's written approval is required if Form 2200 is modified or is not executed.

Rights to Insurance Settlements and Condemnation Proceeds

Fannie Mae must have first claim to insurance settlements and condemnation proceeds.

Notification to Third Parties

The terms of the shared equity legal agreement (as modified by Form 2100 or Form 2200, as applicable) may require the servicer to notify an interested third party, such as the shared equity provider or its designee, when the borrower defaults on the loan or in the event of foreclosure. In this case, the servicer must ensure proper notification is provided, as required by the terms of the legal agreement.

Regardless of any third-party notification requirements, the servicer is still responsible for adhering to Fannie Mae's established timeframes for completing routine foreclosure. Any third-party notifications required in addition to the required statutory notifications must not impair the servicer's ability to foreclose.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-04	May 03, 2023

B5-5.3-03, Shared Equity Transactions: Eligibility, Underwriting and Collateral Requirements (05/03/2023)

Introduction

This topic contains information on shared equity transactions, including:

- Eligibility Requirements
- Affordable LTV Calculation: Resale Restrictions that Terminate at Foreclosure
- LTV Calculation: Resale Restrictions that Survive Foreclosure
- Appraisal Requirements
- Title Insurance and Delivery Requirements

Eligibility Requirements

The following table describes eligibility requirements for shared equity transactions.

<table>
<tr><th>Criteria</th><th>Community Land Trusts</th><th>Income and Resale Price Restrictions</th></tr>
<tr><td>Eligible shared equity providers</td><td colspan="2">Shared equity providers must comply with the eligible provider requirements in B5-5.1-02, Community Seconds Loan Eligibility. Additionally, the following flexibilities are permitted:
• Legal entities that are owned exclusively by a nonprofit organization are also considered eligible shared equity providers. For example, an LLC wholly owned by a nonprofit organization is considered an eligible shared equity provider.
• Shared equity providers are not considered interested parties to the transaction.</td></tr>
</table>

Criteria	Community Land Trusts	Income and Resale Price Restrictions
Required counseling	The shared equity provider must comply with the provisions of the Model Ground Lease relating to counseling the prospective borrowers.	The shared equity provider must have an established procedure that requires counseling or similar engagement with prospective borrowers to ensure such individuals are educated on the specific terms of the income and resale price restrictions, including the calculation that will be used to determine the maximum resale price. This counseling or engagement must be conducted at least 30 days prior to the closing of any purchase transaction. Examples may include, but are not limited to: • one-on-one counseling specific to the transaction, • a program summary document in plain language, or • an attorney review of the program with the prospective homebuyer.
Eligible borrowers	Because of the affordable terms that they offer, shared equity programs include restrictions on borrower eligibility and on the resale price of the property. Eligible borrowers must satisfy the specific eligibility criteria set up by the shared equity program. **Note:** If income limit requirements are imposed by both the shared equity provider and the first mortgage, the most restrictive will apply.	
Eligible property and occupancy types	All loans secured by one- and two-unit principal residence community land trust properties are eligible for purchase by Fannie Mae with the exception of units in a co-op project. Manufactured homes subject to a community land trust are also ineligible unless they are located in a Fannie Mae-approved condo or PUD project. See B4-2.2-06, Project Eligibility Review Service (PERS). The leasehold estate created by the community land trust ground lease must constitute real property under applicable law. Improvements owned by the lessee may be held in fee simple or as a unit in a detached or a Fannie Mae-approved attached condo.	All loans secured by one- and two-unit principal residence properties are eligible for purchase by Fannie Mae. When the subject property is a unit in a limited or shared equity co-op project, the requirements in this *Section B5-5.3, Shared Equity Transactions*, do not apply. For limited or shared equity co-ops, the lender must ensure compliance with *Chapter B4-2, Project Standards*.
Eligible loans	Eligible loans include purchase and refinance transactions. Loans must be fixed-rate or ARMs with an initial fixed period of five years or more.	
Underwriting considerations	These loans may be underwritten manually or through DU. Any recurring monthly fees or expenses associated with the shared equity program must be included in the monthly housing expense for qualifying purposes. See B3-6-03, Monthly Housing Expense for the Subject Property.	

Affordable LTV Calculation: Resale Restrictions that Terminate at Foreclosure

When resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or the recordation of a deed-in-lieu of foreclosure, the sales price is typically not a reliable indicator of market value for the property because the sales price does not include the subsidy from the shared equity provider. The appraised value is more indicative of the actual value of the property in the event of a foreclosure or acceptance of a deed-in-lieu of foreclosure (disregarding factors that may affect value after origination and prior to foreclosure). Accordingly, for these types of transactions, lenders must use the "Affordable LTV" calculation to determine LTV, CLTV, and HCLTV ratios.

The Affordable LTV calculation divides the loan amount by the appraised value of the property, rather than the lesser of the sales price or the appraised value. The following table provides an example of the Affordable LTV calculation method.

Item	Amount
Appraised value	$200,000
Shared equity program subsidy amount	$40,000
Subsidized sales price	$160,000
First mortgage loan amount	$160,000
Affordable LTV Ratio (first mortgage loan amount divided by the appraised value)	80%

When using the Affordable LTV calculation, the lender must

- for DU loans, enter "Affordable LTV" in the Product Description field in the online application, which will result in DU calculating the LTV, CLTV, and HCLTV ratios based solely on the appraised value for purchase transactions (and not the lesser of the sales price or appraised value); and
- for all loans, use the appraised value to determine
  - the minimum down payment;
  - the borrower contribution, if applicable, that must be made from the borrower's own resources; and
  - the level of mortgage insurance required.

LTV Calculation: Resale Restrictions that Survive Foreclosure

When resale restrictions survive foreclosure or a deed-in-lieu of foreclosure, the lender must use the lesser of the sales price or appraised value of the property with resale restrictions when calculating the LTV, CLTV, and HCLTV ratios, which is the standard method of calculation. Fannie Mae requires use of the standard calculation on the lower value due to the presence of resale restrictions, which limit the property's sales price in the event of foreclosure or acceptance of a deed-in-lieu of foreclosure.

> **Note:** This does not apply to loans secured by community land trust properties, which require the resale restrictions to terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or acceptance of a deed-in-lieu of foreclosure.

Appraisal Requirements

For properties in a community land trust, the appraisal requirements can be found in B4-1.4-06, Community Land Trust Appraisal Requirements.

For properties with income and resale price restrictions, the following requirements apply:

- In cases where the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or upon recordation of a deed-in-lieu of foreclosure, the appraisal should reflect the market value of the property without resale restrictions. The lender must ensure that the borrower and appraiser are aware of the resale restrictions and should advise the appraiser that they must include the following statement in the appraisal report:

"This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure."

- In cases where the resale restrictions survive foreclosure or deed-in-lieu of foreclosure, the appraisal must reflect the impact the restrictions have on value and be supported by comparable sales with similar restrictions. The appraisal report must note the existence of the resale restrictions and comment on any impact the resale restrictions have on the property's value and marketability.

Title Insurance and Delivery Requirements

The following table describes title insurance and delivery requirements for shared equity transactions.

Criteria	Community Land Trusts	Income and Resale Price Restrictions
Title insurance requirements	The title insurance policy or an endorsement to the policy must expressly confirm all of the following: • the recording of the complete community land trust ground lease or ground lease memorandum; • the recording of the *Community Land Trust Ground Lease Rider* (Form 2100); • the community land trust loan is secured by a first lien on the leasehold estate and the improvements; • there are no existing loans or other liens on the fee estate, except as may be permitted under Form 2100; • the ground lessor's reversionary interest is subordinate to the community land trust loan; and • there are no related community land trust ground lease occupancy and resale restrictions, covenants, or agreements that "run with the land," and that have been recorded apart from the ground lease, except as may be permitted under Form 2100.	The title insurance policy or an endorsement to the policy must expressly reflect all of the following: • the source and terms of the resale restrictions are included in the public land records so that they are readily identifiable in a routine title search, and • the recording of the *Shared Equity Amendment* (Form 2200).
Pre-delivery considerations	Prior to delivering the loan to Fannie Mae, the lender must confirm • any payments or assessments required to be paid by the borrower under the legal documentation (including ground lease rents for community land trusts) are not past due, and • the borrower is not in default under any other provisions of the legal documentation, nor has the shared equity provider claimed such a default.	
Special feature codes and delivery requirements	The lender must include the following in the delivery data: • SFC 054, • the value of the leasehold (inclusive of the improvements) as the appraisal amount, and • the Affordable LTV ratio.	The lender must include the following in the delivery data: • SFC 630 and the Affordable LTV when the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or the recordation of a deed-in-lieu of foreclosure. • SFC 631 when the resale restrictions survive foreclosure or a deed-in-lieu of foreclosure. • SFC 177 when the Grounded Solutions Network *2021 Model Declaration of Affordability Covenants with Refinance and Resale Restriction and Purchase Option* form was used.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-04	May 03, 2023

B5-5.3-04, Massachusetts Resale Restriction Loan Eligibility Requirements (05/03/2023)

Introduction

This topic contains information on Massachusetts resale restriction loan eligibility requirements, including:

- Lender Eligibility
- Loan Eligibility Requirements
- Legal Considerations

Lender Eligibility

Fannie Mae may purchase loans in Massachusetts that are subject to the *Affordable Housing Restriction* document without further approval from Fannie Mae. This includes any federal, state, or local subsidy program for properties located in Massachusetts.

Use of the *Affordable Housing Restriction* document (copies of which can be obtained from the Massachusetts Housing Finance Agency) without modification, alteration or update, other than filling in the blanks or checking boxes contained in the form, eliminates the need for the lender to review the terms and conditions of the particular subsidy program with respect to loans delivered to Fannie Mae secured by properties in Massachusetts that are subject to resale restriction(s).

Loan Eligibility Requirements

The Massachusetts Housing Finance Agency requires the use of an *Affordable Housing Restriction* document in connection with loans secured by properties in Massachusetts that are subject to resale restrictions that survive foreclosure or deed-in-lieu of foreclosure in which it will serve as lender or project administrator.

Legal Considerations

The *Affordable Housing Restriction* document provides for third-party modification by the foreclosing servicer and provides for a 120-day time period between notification of foreclosure to the municipality by the foreclosing servicer and the completion of the repurchase of the property by the municipality.

While Fannie Mae's standard guidelines require a 90-day time period for notification, use of this instrument for loans subject to a resale restriction secured by property in Massachusetts is acceptable without further approval from Fannie Mae.

All other applicable requirements for resale restrictions continue to apply.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-04	May 03, 2023

Chapter B5-6, HomeReady Mortgage

Introduction

This chapter describes product policies and requirements for HomeReady mortgage loans.

B5-6-01, HomeReady Mortgage Loan and Borrower Eligibility (04/06/2022)

Introduction

This topic contains information on HomeReady mortgage loan and borrower eligibility, including:

- Overview
- General Loan Eligibility
- Maximum LTV, CLTV, and HCLTV Ratios
- Requirements for HomeReady Transactions with LTV, CLTV, or HCLTV Ratios of 95.01 – 97%
- Subordinate Financing
- Eligible Loan Types

Overview

The HomeReady mortgage is a conventional community lending mortgage that offers underwriting flexibilities to qualified borrowers who meet specific income criteria. The HomeReady mortgage is a standard product offering available to all Fannie Mae lenders. No special approvals are required.

General Loan Eligibility

A HomeReady mortgage is a first mortgage, purchase money, or limited cash-out refinance transaction for one- to four-unit properties used as the borrower's principal residence.

Eligible properties include:

- one-unit properties, including manufactured housing, and units in condos and PUDs;
- units in co-ops, provided the unit conforms to Fannie Mae's requirements, and the lender has received specific authority to deliver mortgages on co-ops to Fannie Mae;
- existing structures and new construction; and
- two-, three-, and four-unit properties.

Additional restrictions apply to transactions with LTV, CLTV, or HCLTV ratios of 95.01 — 97%. See below for additional requirements for HomeReady mortgage transactions.

Maximum LTV, CLTV, and HCLTV Ratios

Refer to the Eligibility Matrix for maximum allowable LTV, CLTV, and HCLTV ratios for HomeReady mortgage loans. HomeReady loans that are originated in connection with manufactured homes must follow the more restrictive LTV, CLTV, and HCLTV ratios that apply. For example, the maximum LTV, CLTV, and HCLTV ratio for a one-unit HomeReady manufactured home that does not meet the MH Advantage requirements is 95%.

Requirements for HomeReady Transactions with LTV, CLTV, or HCLTV Ratios of 95.01 – 97%

If the LTV, CLTV, or HCLTV ratio exceeds 95% for a HomeReady transaction, the following requirements apply.

Criteria	Requirements
LTV, CLTV, or HCLTV Ratio	95.01 to 97% **Note**: The CLTV ratio can be up to 105% if the subordinate lien is a Community Seconds loan.
Loan Purpose	Purchase transactions or limited cash-out refinances only.
Existing Loan	**For limited cash-out refinances:** The lender must document that the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from • the lender's servicing system, • the current servicer (if the lender is not the servicer), • Fannie Mae's Loan Lookup tool, or • any other source as confirmed by the lender. The lender must inform DU that Fannie Mae owns the existing mortgage using the Owner of Existing Mortgage field in the online loan application before submitting the loan to DU. **Note**: This requirement does not apply if the CLTV exceeds 95% only due to a Community Seconds loan.
Loan Type	Fixed-rate loans with terms up to 30 years. **Note**: High-balance and ARM loans are not permitted.
Property and Occupancy	One-unit principal residence. Manufactured housing is not permitted, unless the property meets the MH Advantage requirements. All borrowers must occupy the property unless there is a Community Seconds subordinate lien.
Credit Score Requirements	At least one borrower on the loan must have a credit score.
Underwriting Method	DU only
Reserves	Reserves requirements will be determined by DU.
Other	All other standard purchase and limited cash-out refinance and HomeReady requirements apply.

Subordinate Financing

Subordinate financing must comply with:

- the terms for the Community Seconds option, which allow, among other provisions, a maximum combined loan-to-value of 105% (see B5-5.1-01, Community Seconds Loans through B5-5.1-03, Community Seconds: Shared Appreciation Transactions); or
- subordinate financing permitted in accordance with B2-1.2-04, Subordinate Financing.

Subordinate financing from a seller-held mortgage is not permitted with HomeReady mortgages.

Eligible Loan Types

HomeReady mortgage transactions can be secured by fixed-rate or ARM loans.

The following table identifies the ARM plans that are available for HomeReady mortgage loans.

ARM Plans Eligible for HomeReady Mortgages		
30-year	Five-Year ARM	4927
	Seven-Year ARM	4928
	Ten-Year ARM	4929

Temporary Buydowns

The following requirements apply to temporary interest rate buydowns on HomeReady mortgages:

- Loans must be purchase transactions.
- Loans must be fixed-rate or seven- or ten-year ARMs.
- All other standard buydown policies apply.

See B2-1.4-04, Temporary Interest Rate Buydowns, for additional information.

Borrower Income Limits and Calculations

In determining whether a mortgage is eligible under the borrower income limits, the lender must count the income from all borrowers who will sign the note, to the extent that the income is considered in evaluating creditworthiness for the loan.

The lender must use the same methodology in determining income eligibility for a HomeReady mortgage as the lender uses in reporting “Monthly Income” in data delivery. Eligibility for a HomeReady mortgage loan compares the borrower’s income to the applicable area median income (AMI) for the property’s location. For determining

Fannie Mae loan eligibility, lenders must refer to the AMIs that Fannie Mae uses in Desktop Underwriter or on Fannie Mae's website and may not rely on other published versions (such as AMIs posted on huduser.org).

To be eligible as a HomeReady mortgage, the total annual qualifying income may not exceed 80% of the AMI for the property's location. If the property has resale restrictions, see B5-5.2-02, Loans with Resale Restrictions: Eligibility, Collateral and Delivery Requirements, for additional requirements.

> **Note**: For loan casefiles that are not underwritten as a HomeReady mortgage loan, DU will issue a message indicating that the loan may be eligible as a HomeReady loan if the total qualifying income entered in DU appears to be within the applicable AMI limit for the property's location. See B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements, for additional information.

Homeownership Education and Housing Counseling

Homeownership education is required for HomeReady purchase mortgage loans when all occupying borrowers are first-time homebuyers. Refer to B2-2-06, Homeownership Education and Housing Counseling, for options for meeting this requirement.

HomeReady loans for which at least one borrower completed housing counseling as an alternative to homeownership education, evidenced by a signed *Certificate of Completion of Housing Counseling* (Form 1017), are eligible for certain benefits. See B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements, for additional information.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-03	April 06, 2022
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2020-06	October 07, 2020
Announcement SEL-2020-02	April 01, 2020
Announcement SEL-2020-01	February 05, 2020
Announcement SEL-2019-08	October 02, 2019
Announcement SEL-2019-06	July 03, 2019

Announcements	Issue Date
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2018-02	February 27, 2018

B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements (03/01/2023)

Introduction

This topic contains information about HomeReady mortgage loans, including:

- Underwriting Options
- Minimum Borrower Contribution for Purchase Transactions
- Non-Occupant Borrowers
- Homeownership Education and Housing Counseling
- Rental Income from the Subject Property
- Boarder Income
- Cash-on-Hand
- Sweat Equity
- Minimum Reserve Requirements
- Multiple Financed Properties
- Borrowers with Low Credit Scores: Manual Underwriting Only

Underwriting Options

HomeReady mortgage loans can be underwritten with DU or may be manually underwritten. The maximum LTV ratio is lower for manually underwritten transactions versus those underwritten in DU (95% versus 97% for one-unit principal residences). As a reminder, the limited waiver of representations and warranties typically granted for loans underwritten with DU does not apply to manually underwritten loans.

For HomeReady mortgage loans that are underwritten through DU, the lender must enter data in the online loan application, identify the loan as a community lending mortgage, and select the HomeReady product.

If the lender does not select HomeReady as the community lending product, DU will provide a message when the total qualifying income entered in DU appears to be within the applicable AMI limits for the property's location. The lender must then select the HomeReady product and resubmit the loan casefile to help determine if the loan meets all of the HomeReady requirements (assuming the lender wants to sell the loan to Fannie Mae as a HomeReady mortgage).

Minimum Borrower Contribution for Purchase Transactions

The following table describes the minimum borrower contribution requirements (excluding loans with grants).

LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
80% or less	One- to four-unit principal residence	A minimum borrower contribution from the borrower's own funds is not required.
Greater than 80%	One-unit principal residence	A minimum borrower contribution from the borrower's own funds in not required.
	Two- to four-unit principal residence	The borrower must make a 3% minimum contribution from their own funds unless there is any type of grant.

> **Note:** If a grant or lender-funded grant is being provided, see B3-4.3-06, Grants and Lender Contributions for additional borrower contribution requirements.

No minimum contribution is required in connection with a limited cash-out refinance transaction.

Non-Occupant Borrowers

Non-occupant borrowers are permitted on HomeReady mortgages. See B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers on the Subject Transaction, for the eligibility requirements that apply.

Homeownership Education and Housing Counseling

For HomeReady purchase transactions, at least one borrower on the loan must complete the homeownership education or housing counseling requirements described in B2-2-06, Homeownership Education and Housing Counseling. Loans where at least one borrower completed housing counseling are eligible for an LLPA credit. See B5-6-03, HomeReady Mortgage Loan Pricing, Mortgage Insurance, and Special Feature Codes for details.

Rental Income from the Subject Property

Rental income is an acceptable source of qualifying income in the following instances:

- one-unit principal residence with an accessory unit. See B4-1.3-05, Improvements Section of the

Appraisal Report, for additional details related to acceptable accessory units;

- two- to four-unit principal residence properties.

See B3-3.1-08, Rental Income, for calculation and documentation of rental income used for qualifying purposes.

Boarder Income

The rental payments that any borrower receives from one or more individuals who reside with the borrower (who may or may not be related to the borrower) may be considered as acceptable stable income. This applies for a one-unit property in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage if the boarder

- is not obligated on the mortgage loan and does not have an ownership interest in the property;
- has lived with the borrower for the last 12 months;
- can provide appropriate documentation to demonstrate a history of shared residency (such as a copy of a driver's license, bill, or bank statement that shows the boarder's address as being the same as the borrower's address); and
- can demonstrate the payment of rental payments (such as with copies of canceled checks) to the borrower for
    - the last 12 months, or
    - at least 9 of the most recent 12 months provided the rental income is averaged over a 12–month period.

Payment of rent by the boarder directly to a third party is not acceptable.

Cash-on-Hand

Lenders may deliver purchase money mortgages for one-unit properties with cash-on-hand as an acceptable source of funds for the borrower's down payment, funds for closing costs, and prepaid items.

> **Note**: Cash-on-hand may not be used to fund the borrower's reserve requirement, if applicable.

The lender must verify and document the following with respect to the cash-on-hand funds:

- The borrower customarily uses cash for expenses, and the amount of funds saved is consistent with the borrower's previous payment practices.
- The lender must verify that funds for the down payment and closing costs exist in a financial institution account or an acceptable escrow account. Funds must be on deposit at the time of application, or no less than 30 days prior to closing.
- The lender must obtain a written statement from the borrower that discloses the source of funds and states that the funds have not been borrowed.
- The borrower's credit report and other verifications should indicate limited or no use of credit and limited or no depository relationship between the borrower and a financial institution.

Sweat Equity

Fannie Mae considers sweat equity an acceptable source of funds for HomeReady loans when the borrower participates in an affordable housing purchase program run by an eligible provider. Sweat equity program providers must be a nonprofit organization exempt from taxation under Section 501(c)(3) of the IRS code with a demonstrated history of affordable housing construction and experience in managing volunteers.

Sweat equity can only be applied towards the down payment, and the borrower must comply with the requirements in *Minimum Borrower Contribution for Purchase Transactions*.

The following table provides the maximum sweat equity amount and LTV ratio requirements based on property type.

Property Type	**Maximum Sweat Equity**	**Maximum LTV**
One-unit residence	None	95%
Two-to four-unit residence	2% of the lesser of the purchase price or appraised value	Refer to the *Eligibility Matrix* for maximum LTV ratios

The lender must document the loan is originated under a specific lending program. The value attributed to sweat equity must be based on the hours of work performed. The following table provides instructions for determining the contributory value of sweat equity.

Step	**Determining the Value of Sweat Equity**
1.	• The hours of work to be performed and the hourly rate established by the sweat equity program provider must be fully documented in an agreement between the borrower and the provider. • The hourly rate must conform with the national or state value of volunteer time per hour.

Step	Determining the Value of Sweat Equity
2.	The hours of work performed each day must be recorded in a log managed by the sweat equity program provider. The log must include all of the following: • program name, • borrower name, • work date(s), • time in/out, • number of hours, • volunteer worker name, • work location and activity, and • supervisory approval. **Note:** The hours of work performed must be completed before the loan is closed.
3.	The contributory value of the sweat equity is calculated by multiplying the total number of hours of work performed by the hourly rate. Example: 500 hours worked x $20 per hour = $10,000
4.	The lender must review the agreement and log from the sweat equity program provider to validate the contributory value of the sweat equity applied towards the down payment. All documentation must be retained in the loan file.

Minimum Reserve Requirements

For manually underwritten loans, the reserve requirements are documented in the *Eligibility Matrix*. For DU loan casefiles, DU will determine the reserve requirement.

Multiple Financed Properties

The occupant borrower may not have more than two financed properties. See B2-2-03, Multiple Financed Properties for the Same Borrower, for the requirements.

Borrowers with Low Credit Scores: Manual Underwriting Only

For HomeReady mortgage loans secured by one-unit properties, if the loan-level credit score is less than the minimum credit score required for a HomeReady mortgage, the loan may still be eligible for purchase by Fannie

Mae if the following requirements are met:

- The credit report indicates that the borrower's credit score is low due to an insufficient traditional credit history (as documented by reason codes on the credit report that indicate a lack of credit accounts, accounts not opened long enough, lack of usage, etc., as reasons for the low credit score). If the borrower's credit score is low due to derogatory credit or if none of the reason codes noted above appear on the credit report, then the minimum credit score for the transaction must be met (per the *Eligibility Matrix*).
- The lender must supplement the traditional credit file (referred to as a "thin file") with the development of an acceptable nontraditional credit profile in accordance with Section B3–5.4, Nontraditional Credit History.
- The lender must deliver the borrower's credit score (even if below the minimum required) along with SFC 818 at loan delivery to identify HomeReady mortgage loans that have borrowers with thin files.

> **Note:** Special Feature Code 818 should only be used to indicate a "thin file" HomeReady mortgage loan.

Recent Related Announcements

The table below provides reference to recently issued Announcements that are related to this topic.

Announcements and Release Notes	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2022-09	October 05, 2022
Announcement SEL-2022-07	August 03, 2022
Announcement SEL-2019-06	July 03, 2019
Announcement SEL-2019-03	April 03, 2019

B5-6-03, HomeReady Mortgage Loan Pricing, Mortgage Insurance, and Special Feature Codes (02/28/2017)

Introduction

This topic contains information about HomeReady mortgage loans, including:

- Loan-Level Price Adjustments
- Mortgage Insurance Coverage
- Special Feature Codes

Loan-Level Price Adjustments

LLPAs may apply to HomeReady mortgage loans. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. For the current LLPAs, see the Loan-Level Price Adjustment (LLPA) Matrix.

Loans where at least one borrower completed housing counseling from a HUD-approved agency are eligible for an LLPA credit. The housing counseling must meet the requirements of, and be documented on Form 1017 in accordance with, B2-2-06, Homeownership Education and Housing Counseling. The loan must be delivered with SFC 184.

Mortgage Insurance Coverage

For mortgage insurance coverage requirements see B7-1-02, Mortgage Insurance Coverage Requirements. Financed borrower-purchased mortgage insurance is allowed for one-unit properties under HomeReady. Refer to B7-1-04, Financed Borrower-Purchased Mortgage Insurance, for additional information about financed mortgage insurance.

Special Feature Codes

Special Feature Code 900 must be delivered for all HomeReady mortgage loans.

In addition, one or more of the following special feature codes may also be required for HomeReady mortgages:

- loans with a Community Seconds —118,
- loans where at least one borrower completed housing counseling —184,
- loans with financed mortgage insurance — 281, and
- loans for borrowers with “thin” traditional credit files — 818.

For additional information about these codes, see *Special Feature Codes.*

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Chapter B5-7, High Loan-to-Value Refinance Option

Introduction

This chapter provides the policies and requirements for the high loan-to-value refinance option.

B5-7-01, High LTV Refinance Loan and Borrower Eligibility (09/01/2021)

Introduction

This topic contains information about the following aspects of the high LTV refinance option, including:

- Overview
- Existing Loan Requirements
- New Loan Requirements
- Borrower Eligibility
- Property Eligibility
- LTV Ratio Requirements
- Eligible Subordinate Financing
- Leasehold Estates Eligibility
- Multiple Financed Properties

Overview

The high LTV refinance option is designed for Fannie Mae borrowers who are making their mortgage payments on time, but whose LTV ratios exceed the maximum allowed for standard limited cash-out refinance transactions. Lenders are not required to evaluate borrower creditworthiness except for the requirements specifically stated in the high LTV refinance topics.

The current servicer or a new servicer may refinance the existing loan. Lenders may not solicit Fannie Mae loans for refinancing except in accordance with standard requirements in *Lender Solicitation for Refinancing* found in B2-1.3-04, Prohibited Refinancing Practices.

> **Note:** The acquisition of high LTV refinances is currently paused.

Existing Loan Requirements

The following table provides requirements for the existing loan that is to be refinanced under the high LTV refinance option.

✓	**The existing loan must....**
	be a first lien, conventional mortgage loan owned or securitized by Fannie Mae.
	have a note date on or after October 1, 2017.
	have seasoning of at least 15 months - meaning at least 15 months have passed from the note date of the existing loan to the note date of the new loan. For example, if the note date on the existing loan is January 1, 2018, the note date of the new loan must be no earlier than April 1, 2019.

> **Note:** Loans that are part of a risk-sharing structure (for example, credit risk transfers) are eligible to be refinanced under the high LTV refinance option.

Conversely, the following loans are **not** eligible for refinance under the high LTV refinance option:

- existing DU Refi Plus™ or Refi Plus™ loans;
- loans that are subject to outstanding repurchase demands; or
- loans that are subject to recourse, repurchase agreement, indemnification, or another negotiated credit enhancement required at origination for eligibility purposes are not eligible unless
  - the new loan is also subject to a credit enhancement that meets eligibility requirements, or
  - such credit enhancement is not required for eligibility purposes on the new loan.

New Loan Requirements

The following table provides requirements for the new loan resulting from the refinance under the high LTV refinance option.

✓	**The new loan must...**
	have an application date on or after November 1, 2018. **Note:** The acquisition of high LTV refinances is currently paused.

✓	**The new loan must...**
	be either: • a fixed-rate loan; or • an ARM that refinances an existing ARM, with the new ARM having a minimum five-year fixed rate term.
	have a term not to exceed 30 years.
	meet current general or high-balance loan limits, as applicable, at the time of loan delivery.
	have a newly executed *Uniform Residential Loan Application* (Form 1003/1003(S)) for the borrower(s) with all information completed, including borrower income, employment, and assets.
	provide a benefit to the borrower in the form of at least one of the following: • a lower P&I payment; • a lower interest rate; • a shorter amortization term; or • movement to a more stable product (for example, from an ARM or step-rate modification to a fixed-rate loan).

The new loan cannot be originated pursuant to Texas Constitution Section 50(a)(6). Temporary interest rate buydowns are not allowed.

The standard limited cash-out refinance requirements are modified for high LTV loan transactions. The new loan amount is limited to

- the payoff of the UPB of the existing first mortgage loan being refinanced (including accrued interest);
- the financing of closing costs, prepaid items, and points up to $5,000 total for the new loan; and
- cash back to the borrower up to $250. Excess proceeds may be applied as a curtailment on the new loan.

Lenders may provide an incentive to the borrower(s) in the form of a payment to pay off a portion of the existing loan being refinanced provided the following:

- no repayment is required,
- the payment is reflected on the settlement statement as a lender credit, and
- because any such reduction of the existing loan balance will impact the LTV ratio as it applies to the calculation of the new loan amount, lenders are advised to use caution as incentives have the potential to reduce the LTV ratio below the minimum allowed for this option.

See B3-4.1-02, Interested Party Contributions (IPCs), for additional requirements that apply to lender incentives.

Borrower Eligibility

Generally, the borrower(s) on the loan being refinanced (or the current borrower(s) if the existing loan was assumed) must be identical to the borrower(s) on the new loan. However, an existing borrower may be excluded from the new loan for either of the following:

- the remaining borrower(s) meets the mortgage payment history requirements and provides evidence that they have been making the payments on the existing loan from their own funds for the most recent 12 months prior to the application of the new loan, or
- due to the death of a borrower. Evidence of the deceased borrower's death must be documented in the loan file.

If this criteria cannot be met, the new loan must be underwritten in accordance with the Alternative Qualification Path. See B5-7-03, High LTV Refinance Alternative Qualification Path for additional information.

New borrowers may not be added to the new loan refinanced via the high LTV refinance option. Additionally, if the loan being refinanced was assumed by the current borrower(s) prior to the refinance, the current borrowers must have been qualified for the existing loan in accordance with the requirements of the *Servicing Guide.*

Borrowers who have applied for or received a modification are eligible for refinancing provided the following:

- the borrower benefit provision is met using the prevailing payment, and
- the payment history requirement is met. See *Credit Eligibility Requirements* in *B5-7-02, High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan.*

Property Eligibility

All Fannie Mae-eligible property types are permitted for refinance under the high LTV refinance option.

For properties in condo, co-op, or PUD projects, all project review requirements are waived with the exception that the lender must confirm the project is not a condo or co-op hotel or motel, houseboat project, timeshare, or segmented ownership project. For assistance in determining whether the project is a condo or co-op hotel or motel, see B4-2.1-03, Ineligible Projects.

The lender must obtain property and flood insurance in accordance with this Guide.

LTV Ratio Requirements

For the new loan to be eligible, the following table provides the minimum LTV ratio requirements for both fixed-rate and ARM loans.

Occupancy Type	Units	Minimum LTV
Principal Residence	1	97.01%
	2	85.01%
	3-4	75.01%
Second Home	1	90.01%
Investment Property	1-4	75.01%

The loan being refinanced and the new loan do not have to represent the same occupancy. The occupancy of the subject property may have changed by the time of the high LTV refinance transaction.

There are no maximum LTV, CLTV, or HCLTV ratios for fixed-rate loans. There is a maximum LTV ratio of 105% for ARM loans, but no maximum CLTV or HCLTV ratio. For comprehensive requirements see the Eligibility Matrix.

Eligible Subordinate Financing

New subordinate financing is only permitted if it replaces existing subordinate financing. In addition, the existing subordinate financing

- may not be satisfied with the proceeds of the new loan, but
- may remain in place as long as it is resubordinated to the new loan, and
- may be simultaneously refinanced as long as the new subordinate lien loan amount does not exceed the existing UPB.

Other subordinate financing requirements described in B2-1.2-04, Subordinate Financing are not applicable.

> **Note:** Although standard Fannie Mae policy prohibits subordinate financing on co-op share loans, an exception is permitted for high LTV refinance loans as long as the existing subordinate lien is subordinate to the new co-op share loans.

Leasehold Estates Eligibility

The term of the leasehold must run for at least five years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower. The lender is not required to perform any additional review of the leasehold terms.

Multiple Financed Properties

There are no limits on the number of financed properties the borrower may own. The additional eligibility requirements for borrowers with multiple financed properties in B2-2-03, Multiple Financed Properties for the Same Borrower do not apply.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-08	September 01, 2021
Announcement SEL-2018-06	August 07, 2018

B5-7-02, High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan (03/01/2023)

Introduction

This topic contains information about underwriting requirements for the high LTV refinance option, including:

- Underwriting Methods
- Underwriting Requirements
- Employment, Income, and Asset Verification
- Valuation Requirements

Underwriting Methods

High LTV refinance loans may be underwritten using DU or manually, with the exception of loans subject to the Alternative Qualification Path (which must be manually underwritten). Loans secured by a second home or an investment property must be underwritten in DU and receive an Approve/Eligible recommendation, unless they are required to be underwritten in accordance with the Alternative Qualification Path (see B5-7-03, High LTV Refinance Alternative Qualification Path).

Loans Underwritten in DU

When a limited cash-out refinance loan casefile that meets the minimum LTV requirement for a high LTV refinance loan is underwritten in DU, internal data will be used to determine if Fannie Mae owns the loan on the property, and if that loan is eligible to be refinanced using the high LTV refinance option.

When DU finds a loan for the subject property address using either the address provided on the DU loan application or the standardized address, DU will then confirm that the Social Security number(s) for the borrower(s) on the new loan casefile match those on the existing loan. The result of the Social Security number matching will be specified in a DU message.

When none of the borrower Social Security numbers match, the loan casefile will not be underwritten as a high LTV refinance loan. DU will issue a message informing the lender that the Social Security number(s) does not match and remind the lender to confirm the property address.

When there is a Social Security number match, DU will underwrite the loan casefile as a high LTV refinance loan. If the Social Security number for any of the borrowers on the loan casefile do not match using all nine digits, DU will advise the lender.

- When a borrower Social Security number is matched using 7 or 8 digits of the 9-digit Social Security number, the DU message will specify that the Social Security numbers are one or two digits different and will require the lender to confirm the borrowers on the existing loan are the same borrowers that will be on the new loan.
- When there are two borrowers on the new loan and two borrowers on the existing loan, but only one borrower's Social Security number matches, the DU message will specify that not all of the borrower Social Security numbers match and will require that the lender confirm the borrowers on the existing loan are the same borrowers that will be on the new loan.
- When one borrower is on the new loan casefile but more than one borrower is on the existing loan, the DU message will state that it appears that a borrower is being removed with transaction and refer the lender to the *Selling Guide* for additional requirements on removing a borrower with a high LTV refinance transaction.
- When there is more than one borrower on the new loan casefile but there is only one on the existing loan, the DU message will state that it appears that a borrower is being added with the high LTV refinance transaction, and if that is the case, the high LTV refinance loan is not eligible for delivery.

Manually Underwritten Loans

The lender must determine that all eligibility requirements are met for manually underwritten loans.

Underwriting Requirements

The following table provides underwriting and documentation requirements applicable to high LTV refinance loans.

Underwriting and Documentation Requirements

Payment History	To be eligible for the high LTV refinance option, the payment history for the existing loan for the most recent 12 months must reflect • no delinquencies in the most recent 6 months, and • in months 7-12, no more than one, 30-day delinquency and no delinquency greater than 30 days.
DTI Ratio	There are no maximum DTI ratio requirements except for loans underwritten under the Alternative Qualification Path.
Credit Score	There is no minimum credit score requirement except for loans underwritten under the Alternative Qualification Path. Lenders must obtain and review a merged credit report in accordance with standard *Selling Guide* policies for payment history and pricing purposes. However, lenders are not required to comply with the waiting period and re-establishment of credit requirements for significant derogatory credit events or the payoff or satisfaction of a judgment identified on the credit report. Also, lenders are not required to review or consider Form 1003 Declarations in the underwriting evaluation.
Property Status	The lender does not need to confirm the subject property is not currently listed for sale.
Request for Transcript of Tax Return	Each borrower must complete and sign a separate IRS Form 4506-C at or before closing. See B3-3.1-06, Requirements and Uses of IRS IVES Request for Transcript of Tax Return Form 4506-C, for additional information.

Higher-Priced Loan Requirements	If the loan is a higher-priced mortgage loan or a higher-priced covered transaction under Regulation Z, the loan must comply with the Alternative Qualification Path requirements. DU is unable to determine if a loan casefile is a higher-priced mortgage loan or a higher-priced covered transaction under Regulation Z. The lender must make this determination. Lenders are not relieved of complying with Regulation Z by only adhering to the stricter representative credit score and DTI ratio. The loan must comply in all respects with Regulation Z requirements for such loans, including the underwriting and consumer protection requirements.

Employment, Income, and Asset Verification

The lender must obtain one of the following for the new loan:

- a verbal verification of employment for employment or self-employment income for at least one borrower,
- documentation of a non-employment income source, or
- documentation of liquid financial reserves equal to 12 months of the new monthly housing payment.

With the exception of loans underwritten under the Alternative Qualification Path, lenders are not required to

- assess continuity of income,
- verify income,
- verify assets, or
- calculate the DTI ratio.

Valuation Requirements

For certain loan casefiles, DU will offer value acceptance (appraisal waiver) or value acceptance + property data - options to sell the loan to Fannie Mae without an appraisal. Otherwise, an appraisal with an interior and exterior inspection is required. If an appraisal is obtained, it must be used for valuation even if a waiver is offered by DU.

A lender may only exercise the high LTV refinance value acceptance (appraisal waiver) or value acceptance + property data offer if

- the final submission of the loan casefile to DU resulted in an offer,
- an appraisal is not obtained for the transaction, and

- the offer is not more than four months old on the date of the note and the mortgage.

Lenders exercising the high LTV refinance value acceptance (appraisal waiver) must deliver Special Feature Code 807 or 774 for value acceptance + property data.

When the lender is required by law to obtain an appraisal, the lender must comply with such requirements, but may still exercise the offer.

For manually underwritten loans, an appraisal with an interior and exterior inspection is required.

Repairs to a property damaged as the result of a disaster (as defined by this *Selling Guide*) are not required prior to loan sale as long as the loan meets the applicable property insurance requirements. The lender is not required to perform an additional inspection and/or new appraisal of the property after a disaster.

Recent Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2021-03	April 07, 2021
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2018-06	August 07, 2018

B5-7-03, High LTV Refinance Alternative Qualification Path (12/15/2021)

Introduction

This topic contains information about using the Alternative Qualification Path for the high LTV refinance option, including:

- Eligibility Requirements
- Documentation Requirements

Eligibility Requirements

The following table provides criteria for using the Alternative Qualification Path.

If any of the following apply to the new loan...	Then the loan...
the P&I payment increases by more than 20% from the current P&I payment	must comply with the Alternative Qualification Path requirements.
a borrower on the loan being refinanced is being excluded from the new loan other than due to death, and the remaining borrower(s) cannot provide evidence of making payments on their own for the prior 12 months	
the loan is a higher-priced mortgage loan or a higher-priced covered transaction under Regulation Z	

In addition to all other requirements associated with the high LTV refinance option loans, loans originated in accordance with the Alternative Qualification Path must also meet the requirements described in the following table.

✓	Additional requirements for high LTV refinance loans originated using the Alternative Qualification Path
	Minimum credit score of 620.
	Maximum DTI ratio of 45%.
	Verified assets needed to close, when applicable.
	The lender is required to manually underwrite all loans subject to the Alternative Qualification Path.

Documentation Requirements

In addition to the eligibility considerations described in this topic, the documentation requirements in the following table apply.

Income Type and Eligible Income Sources	Documentation Requirements
All Employment Income	Verbal verification of employment (See B3-3.1-07, Verbal Verification of Employment, for additional requirements.) **Note:** Each borrower must complete and sign a separate IRS Form 4506-C at or before closing.
Base Pay (salary or hourly) **Tip, Bonus, and Overtime Income**	One paystub or a completed *Request for Verification of Employment* (Form 1005 or Form 1005(S)). Applies to primary employment, secondary employment (second job and multiple jobs), and seasonal income.
Commission Income	One paystub or Form 1005 or Form 1005(S) or one year personal tax return.
Military Income	A military Leave and Earnings Statement or a verification of employment.
Self-Employment	One year personal tax return. Applies to primary and secondary self-employment.
Alimony, Child Support, or Separate Maintenance	Copy of divorce decree, separation agreement, court order or equivalent documentation, and one month documentation of receipt.
Employment-Related Assets as Qualifying Income	Lender must obtain standard documentation for this type of income as described in B3-3.1-09, Other Sources of Income.
Rental Income	Lease or one year personal tax return (Form 1007 is not required). Applies to rental income from subject property or from other properties owned by the borrower.

Income Type and Eligible Income Sources	Documentation Requirements
Retirement and Pension	One of the following: • award letter, • one year personal tax return, • W-2 or 1099 form, or • one month bank statement reflecting direct deposit.
Social Security	One of the following: • award letter, • one year personal tax return, • Form SSA-1099, or • one month bank statement reflecting direct deposit.
Temporary Leave Income	Lender must receive: • the borrower's written confirmation of their intent to return to work, and • no evidence or information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period. Regardless of the date of return, the amount of the "regular employment income" the borrower received prior to the temporary leave must be used to qualify.

<table>
<tr><th>Income Type and Eligible Income Sources</th><th>Documentation Requirements</th></tr>
<tr><td>All Other Income Types
• Automobile Allowance
• Boarder Income
• Capital Gains Income
• Disability Income - Long-Term
• Employment Offers or Contracts
• Foreign Income
• Foster-Care Income
• Housing or Parsonage Allowance
• Interest and Dividends Income
• Mortgage Credit Certificates
• Mortgage Differential Payments Income
• Non-Occupant Borrower Income
• Notes Receivable Income
• Public Assistance Income
• Royalty Payment Income
• Schedule K-1 Income
• Trust Income
• VA Benefits Income</td><td>Lender must determine appropriate documentation. Examples include (but are not limited to):
• an award letter or equivalent documentation or agreement,
• one paystub or equivalent documentation,
• one year personal tax return,
• IRS 1099 Form, or
• one month bank statement reflecting direct deposit.</td></tr>
<tr><td>Asset Type
• Checking Accounts
• Savings Accounts
• Certificates of Deposit
• Money Mark Accounts
• Stocks, Bonds, Mutual Funds
• Retirement Accounts
• Trust Accounts
• Secured Borrowed Funds
• Grants (Hardest Hit Fund)
• Gifts</td><td>One recent statement (monthly, quarterly, or annual) showing asset balance.</td></tr>
</table>

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-11	December 15, 2021

Announcements	Issue Date
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2018-09	December 04, 2018
Announcement SEL-2018-06	August 07, 2018

B5-7-04, High LTV Refinance Representations and Warranties (03/01/2023)

Introduction

This topic contains information about the representations and warranties for the high LTV refinance option, including:

- Lender Representations and Warranties
- Applicability of the Representation and Warranty Framework

Lender Representations and Warranties

For high LTV refinance loans, lenders are responsible for the standard representations and warranties described in the *Selling Guide,* with a number of exceptions as noted below.

For all High LTV Refinances

- If the lender obtains an appraisal for the subject property, the lender is not responsible for the standard representations and warranties related to the marketability and condition of the property as reflected in the property valuation. The lender remains responsible for the appraisal as it pertains to the value.
  - Lenders may deliver loans on properties with a condition rating of C6 and/or a quality rating of Q6 completed on an “as-is” basis. There is no requirement for the appraisal to be completed “subject to” repairs being made.
- For properties in a project, the lender is not responsible for the standard representations and warranties related to project eligibility. However, the lender must represent and warrant the property is not a condo or co-op hotel or motel, houseboat project, or a timeshare or segmented ownership project.

Loans Underwritten in DU

- The lender is not responsible for any of the representations and warranties associated with the loan being refinanced.

- The lender is relieved of the standard underwriting representations and warranties (eligibility, credit history, liabilities, income and asset assessment) with respect to the new mortgage loan if the lender meets all of the following requirements:
  - All data in the loan casefile is complete, accurate, and not fraudulent.
  - The lender follows the instructions in the DU Underwriting Findings report regarding income, employment, asset, and fieldwork documentation.
  - The lender complies with all other requirements described in A2-2-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU
- The lender complies with the requirements described in A2-2-06, Representations and Warranties on Property Value.

Manually Underwritten Loans

- The lender is not responsible for any of the representations and warranties associated with the loan being refinanced other than those related to eligibility of the existing loan being refinanced.
- The lender must represent and warrant that the new loan meets all the requirements of the high LTV refinance option as described in this Guide.

Applicability of the Representation and Warranty Framework

High LTV refinance loans are eligible for enforcement relief in accordance with the requirements of A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2018-06	August 07, 2018

B5-7-05, High LTV Refinance Pricing, Mortgage Insurance, and

Special Feature Codes (08/07/2018)

Introduction

This topic contains information about the high LTV refinance option, including:

- Loan-Level Price Adjustments
- Mortgage Insurance
- Loan Delivery Requirements
- Whole Loan Committing and Pooling of Loans with LTV Ratios Above 105%

Loan-Level Price Adjustments

The LLPAs that are applicable to high LTV refinance loans are detailed in the Loan-Level Price Adjustment (LLPA) Matrix. Caps may apply based on the LTV ratio and amortization term, and excess LLPAs will be waived at delivery.

Mortgage Insurance

The following table provides mortgage insurance requirements for high LTV refinance loans.

If the loan being refinanced...	Then...
does not have mortgage insurance	mortgage insurance will not be required on the new loan.
has existing mortgage insurance	the existing mortgage insurance coverage must be continued on the new loan. To accomplish this, the mortgage insurer will modify the existing MI certificate and transfer it to the new loan. Such transfer may or may not include assignment of a new MI certificate number. Lenders should check with the mortgage insurer for specific requirements.

Existing loans with financed mortgage insurance are eligible for high LTV refinance loans. There should be no difference in how coverage is continued on the refinance of such loans versus existing loans that do not have financed mortgage insurance. The existing coverage can be continued on the new loan regardless of whether the financed premium on the existing loan was paid as a single premium or a split premium.

Mortgage insurance coverage must extend for the life of the new loan, or until cancellation or termination of coverage as required by law or Fannie Mae guidelines. For example, even if a 15-year loan that is 3 years old is refinanced into a 30-year loan, the mortgage insurance coverage should be extended for the full life of the new loan.

A mortgage insurance company may charge a reasonable fee to transfer the certificate. Fannie Mae allows such cost to be rolled into the UPB of the new loan as a closing cost as long as the loan will still comply with both Fannie Mae and mortgage insurer guidelines. See B7-1-02, Mortgage Insurance Coverage Requirements for additional information.

Loan Delivery Requirements

For high LTV refinance loans, lenders must provide all applicable loan delivery data elements and special feature codes.

The following special feature codes (SFC) may apply:

- SFC 839 may optionally be delivered for high LTV refinance loans underwritten using the standard requirements.
- SFC 840 is required for high LTV refinance loans that are underwritten using the Alternative Qualification Path.

These codes are to be used in addition to any other special feature codes that may apply.

Income must be reported to Fannie Mae for all high LTV refinance loans at the time of loan delivery even for those transactions where there is no maximum DTI ratio. For high LTV refinance loans with payment changes less than or equal to 20%, the lender must report the stated income on the loan application (if any). If the borrower does not state any income and the lender uses the verification of reserves option as the income source, the lender must deliver the equivalent of the new monthly payment (PITIA) as the “Monthly Income” data element (Sort ID 291).

> **Note:** Lenders must report gross monthly rent in the loan delivery data for all investment properties and two- to four- unit principal residence properties, regardless of whether the borrower is using rental income to qualify for the mortgage loan. See A3-4-02, Data Quality and Integrity for additional information.

Whole Loan Committing and Pooling of Loans with LTV Ratios Above 105%

Separate committing is required for high LTV refinance loans with LTV ratios above 105%. These loans may not be delivered against standard whole loan commitments. Specific “High LTV Refi” products are available in Fannie Mae’s whole loan committing application.

High LTV refinance loans with LTV ratios above 105% cannot be included in TBA-eligible MBS, but must be included in pools specifically created for loans with LTV ratios above 105%.

Furthermore, lenders may be able to deliver high LTV refinance loans with LTV ratios above 105% into the respective Fannie Majors pool specifically available for these loans. Due to the separate pool prefixes required for loans with LTV ratios above 105%, these loans may not be delivered into standard TBA-eligible Fannie Majors pools. However, MBS deliveries of loans refinanced under this new option are eligible for securitization utilizing existing Fannie Mae pool prefixes.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-06	August 07, 2018

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Subpart B6, Government Programs Eligibility and Underwriting Requirements

Introduction

This subpart contains information on government mortgage loans eligible for sale to Fannie Mae.

Chapter B6-1, Government Insured and Guaranteed Mortgages

Introduction

This chapter describes the requirements for selling a government mortgage loan to Fannie Mae. These include the general requirements related to all government mortgage loans as well as the requirements for specific government mortgage programs.

B6-1-01, General Government Mortgage Loan Requirements

(07/05/2023)

Introduction

This topic contains general information on government mortgage loan requirements, including:

Overview

All eligible government mortgage loans purchased or securitized by Fannie Mae must comply with the requirements of the respective government agency. Those loans must also comply with Fannie Mae requirements for government mortgage loans as specifically addressed in this *Selling Guide*.

Lender Eligibility

Most government mortgage loans can only be delivered to Fannie Mae under a variance in the Lender Contract.

Mortgage Term

The term of a government mortgage loan may not extend more than 30 years beyond the date of the first monthly payment.

Age of Loans

All government mortgage loans must be no more than six months old measured from the first payment date to the "Purchase Ready" date (whole loan) or the MBS pool issue date (MBS loan).

Lien Requirements

The security instrument for a government mortgage loan must be a first lien on the borrower’s real property. The security property may be subject only to liens for taxes and special assessments that are not yet due and payable and to conditions, restrictions, and encumbrances that Fannie Mae does not consider as material. The lender must provide documentation to show that the current installments of taxes and assessments (including those that may have been attached as prior liens, but are not now in arrears) have been paid or that sufficient deposits are being collected to pay them.

Rental Property Leases

When the property that secures the mortgage is rented, the rental agreement or lease may not include any provision that could affect significantly Fannie Mae’s position as mortgagee. In some jurisdictions, leases that predate the mortgage have a superior claim to the mortgage even if they have not been recorded. Normally, a tenant’s rights under a pre-existing lease remain intact on the sale of the leased premises. Accordingly, if the lease is not subordinate to the mortgage, the lender must review each lease to ensure that any tenant’s rights to purchase the property, and any other rights that could affect adversely the mortgagee’s interest, have been waived formally by the tenant or tenants.

Mortgages Permitting Open-End Advances

Fannie Mae will purchase or securitize a government mortgage loan that includes an open-end advance provision only if the provision gives Fannie Mae the option not to make any advances. If funds were advanced prior to delivery, the transaction is considered a modified mortgage that is not eligible for delivery. See B2-1.5-02, Loan Eligibility.

Mortgage Payments

Because Fannie Mae will not decline delivery submissions for slight differences in payment calculations, the lender may use any widely accepted amortization table or formula. However, the monthly payment provided as part of the delivery data and the one that Fannie Mae calculates cannot differ by more than $1.00.

Notice of Transfer

When lenders deliver government mortgage loans to Fannie Mae for purchase or securitization, they must report the transfer of the loan in accordance with the applicable agency’s requirements, if applicable.

MBS Pool Parameters

Government mortgage loans (for example, FHA-insured, VA-guaranteed, HUD-guaranteed, and RD-guaranteed) that are securitized must be pooled in government-prefix MBS pools. Government mortgage loans cannot be commingled in the same pool with conventional mortgage loans.

Remittance Types

For all government mortgage loans, the actual/actual remittance type is required for whole loans. The scheduled/scheduled remittance type is required for all government mortgage loans delivered into MBS. (Lenders should refer to Fannie Mae’s whole loan committing application for additional information regarding eligible whole loan remittance types.)

Credit Score

All government mortgage loans are subject to a minimum representative credit score of 620. Manually underwritten government mortgage loans with nontraditional credit are exempt from this policy.

Delivery of Government Mortgage Loans

For government mortgage loans, the lender must report all applicable data elements at delivery, including but not limited to, the Section of the Act and certain government loan-specific special feature codes. Refer to the *Fannie Mae Implementation Guide for Loan Delivery Data* on Fannie Mae's website for additional information.

Loan Guaranty or Insurance

For Government Mortgage Loan Guaranty or Insurance, see B7-1-05, Government Mortgage Loan Guaranty or Insurance.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-06	July 05, 2023
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2020-04	August 05, 2020

B6-1-02, Eligible FHA-Insured Mortgage Loans (08/05/2020)

Introduction

This topic contains information on eligible FHA-insured loans, including:

- Overview
- FHA Higher Balance Mortgage Loans
- FHA-Insured Adjustable-Rate Mortgages
- Other Fannie Mae Policies that Pertain to FHA Loans

Overview

Fannie Mae may purchase or securitize single-family loans that are insured by FHA under the following Sections of Title II of the National Housing Act:

- Section 203(b) Home Mortgages,
- Section 203(h) Home Mortgages for Disaster Victims,
- Section 203(k) Rehabilitation First Mortgages,
- Section 234 Condominium Units (individual mortgages only), and
- Section 251 Adjustable-Rate Mortgages.

The above-listed FHA loans can only be delivered to Fannie Mae under a variance in the Lender Contract. The loans must comply with all applicable FHA laws and guidelines and the lender must obtain the required FHA mortgage insurance.

> **Note**: Each Section 203(k) mortgage loan delivered to Fannie Mae must be identified with SFC 089.

FHA Higher Balance Mortgage Loans

Lenders may deliver higher balance FHA loans to Fannie Mae for whole loan or MBS execution. Certain FHA higher balance loans must be delivered with SFC 798. Refer to Special Feature Codes on Fannie Mae's website for additional information about the use of this SFC.

FHA-Insured Adjustable-Rate Mortgages

Fannie Mae will purchase or securitize the following regularly amortizing FHA-insured ARMs that are tied to the appropriate Treasury securities index:

- 3/1 ARM Plan 3549, 1/1/5 cap;

- 5/1 ARM Plan 3550, 1/1/5 cap;
- 5/1 ARM Plan 3640, 2/2/6 cap;
- 7/1 ARM Plan 3551, 2/2/6 cap; and
- 10/1 ARM Plan 3552, 2/2/6 cap.

Other Fannie Mae Policies that Pertain to FHA Loans

Fannie Mae imposes the following additional policies for FHA loans:

- Fixed-rate FHA-insured loans that are subject to interest rate buydowns are eligible for delivery to Fannie Mae as long as the borrower is qualified at the note rate.
- FHA-insured loans that were previously included in a Ginnie Mae MBS pool but removed due to delinquency or other reasons are only eligible for sale to Fannie Mae on a negotiated basis.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-04	August 05, 2020
Announcement SEL-2019-03	April 03, 2019

B6-1-03, Eligible VA-Guaranteed Mortgages (02/02/2022)

Introduction

This topic contains information on eligible VA-guaranteed loans, including:

- Eligible VA-Guaranteed Loans
- Other Fannie Mae Policies that Pertain to VA Loans

Eligible VA-Guaranteed Loans

Fannie Mae may purchase or securitize loans secured by one- to four-unit residential properties that are guaranteed by the VA only under Section 3710 of Title 38 for fixed-payment loans in the United States Code. These VA loans can only be delivered to Fannie Mae on a negotiated basis.

Other Fannie Mae Policies that Pertain to VA Loans

Fannie Mae imposes the following additional policies for VA loans:

- Fannie Mae will purchase or securitize fixed-rate VA-guaranteed loans that are subject to interest rate buydowns as long as the borrower is qualified at the note rate.
- The dollar amount of the VA guaranty must be at least equal to 25% of the original principal amount of the mortgage loan.
- Fannie Mae limits the maximum loan amount for VA loans to the one-unit conforming loan limit based on the county in which the property is located. (The one-unit limit applies regardless of the number of units in the property.)

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-01	February 02, 2022
Announcement SEL-2020-04	August 05, 2020
Announcement SEL-2019-03	April 03, 2019

B6-1-04, Eligible HUD-Guaranteed Section 184 Mortgages (12/14/2022)

Introduction

This topic contains information on HUD-guaranteed Section 184 (Indian Home Loan Guarantee Program) mortgages, including:

Overview

Any approved Fannie Mae lender may deliver HUD-guaranteed Section 184 mortgages to Fannie Mae provided the lender obtains the required HUD loan guarantee.

Fannie Mae will purchase or securitize HUD-guaranteed Section 184 mortgages under the following conditions:

- The HUD Section 184 mortgage must comply with HUD requirements.
- The loan must be secured by one- to four-unit properties located on individual lots or in a condo, cooperative, or PUD project.
- HUD Section 184 mortgages may be secured by a manufactured home if it meets HUD's requirements.
- The mortgage transaction may be a purchase or a refinance transaction.
- HUD Section 184 mortgages that are subject to an interest rate buydown plan are not permitted.

HUD Section 184 Combination Construction/Permanent Mortgages

Lenders must adhere to HUD’s requirements concerning combination construction/permanent HUD 184 mortgages. These are limited to whole loan deliveries only.

Fannie Mae will not purchase a HUD-guaranteed Section 184 mortgage that includes as part of the collateral, personal property, cash, notes, an interest in securities, royalties, annuities, and any other property that is transferable and for which a present value may be determined.

However, the construction escrow account that is required when these mortgages are closed as combination construction/permanent mortgages, as well as any partially completed improvements, must be part of the collateral.

Delivery of HUD-Guaranteed Section 184 Mortgages

Lenders must report SFC 202 when delivering HUD Section 184 mortgages to Fannie Mae.

Section 184 loans are assumable as of the note date. When selling such loans to Fannie Mae, the Assumption Indicator in the Loan Delivery application must be "True" (which means assumable).

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022

B6-1-05, Eligible RD-Guaranteed Mortgages (12/14/2022)

Introduction

This topic contains information on eligible RD-guaranteed mortgages, including:

- Overview
- RD Higher Balance Mortgage Loans
- Section 502 Leveraged (Blended) Loan Program
- Delivery Requirements

Overview

Fannie Mae will purchase or securitize RD-Guaranteed Section 502 first mortgage loans under the following conditions:

- The loans must be secured by one-unit residential properties.
- Fixed-rate RD-Guaranteed Section 502 first mortgage loans that are subject to interest rate buydowns are eligible for delivery to Fannie Mae as long as the borrower is qualified at the note rate.

RD Higher Balance Mortgage Loans

Lenders may deliver higher balance RD-Guaranteed Section 502 first mortgage loans subject to the same Fannie Mae high-cost area loan limits that apply to conventional loans.

Section 502 Leveraged (Blended) Loan Program

Fannie Mae will purchase conventional first mortgage loans that are combined with a direct, low interest rate, subordinate RD Section 502 Leveraged (Blended) Loan Program under the Community Seconds program. Lenders are not required to obtain specific approval from Fannie Mae to originate these RD Section 502 Leveraged (Blended) Loan Program mortgage loans. Any Fannie Mae-approved lender that meets RD's lender eligibility criteria may deliver mortgages originated under this program.

Fannie Mae will not purchase the RD-subsidized second mortgage. The first mortgage loan must satisfy the eligibility criteria applied to any standard conventional first mortgage in addition to any RD guidelines.

See B5-5.1-02, Community Seconds Loan Eligibility, for additional information.

Delivery Requirements

The following table describes the special feature codes that must be reported for RD Section 502 mortgage loans.

Loan Type	Required Special Feature Code(s)
Section 502 Guaranteed first mortgage loan	087
Section 502 Guaranteed first mortgage loan where the subject property is a manufactured home	087 and 235
First mortgage loan originated under RD Section 502 Leveraged (Blended) Loan Program First Mortgage Loan that is combined with RD Section 502 subordinate lien (Community Seconds)	118 and 220

Section 502 loans are assumable as of the note date. When selling such loans to Fannie Mae, the Assumption Indicator in the Loan Delivery application must be "True" (which means assumable).

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022

Subpart B7, Insurance

Introduction

This subpart describes Fannie Mae's requirements for mortgage, title, property, flood, liability, and fidelity insurance.

Chapter B7-1, Mortgage Insurance/Loan Guaranty

Introduction

This chapter describes Fannie Mae's policies and requirements for standard conventional mortgage insurance coverage and government mortgage loan guaranty or insurance. The chapter includes requirements related to lender-purchased and borrower-financed conventional mortgage insurance.

B7-1-01, Provision of Mortgage Insurance (02/03/2021)

Introduction

This topic contains information on mortgage insurance, including:

- General Requirements
- Use of Approved Forms
- LTV Ratio Determination in New York State
- Payment of Mortgage Insurance Premiums
- Mortgage Insurability
- Prohibition of Certain Mortgage Insurance Agreements

General Requirements

Lenders must ensure that any mortgage insurance Fannie Mae requires for a mortgage loan is in place. Lenders must obtain and be able to produce evidence of any required mortgage insurance or loan guaranty.

Unless the lender has provided another charter-compliant form of credit enhancement, the lender must obtain a primary mortgage insurance policy for a conventional first mortgage loan that has an LTV ratio greater than 80% at the time it is purchased for Fannie Mae's portfolio or securitized. (For this purpose, the LTV ratio is calculated based upon the unpaid principal balance of the mortgage loan at the time it is purchased or securitized by Fannie Mae.)

- For a purchase money loan, the value used in determining the LTV ratio is the lower of the sales price or the appraised value of the security property.

- For a refinance loan, the value used in originating the loan can be derived from an appraisal, AVM, or other acceptable method.

Conventional mortgages may be insured by private mortgage insurers or state or local insuring agencies that have been approved under Fannie Mae's Qualified Mortgage Insurer Approval Requirements to insure loans sold to or serviced for Fannie Mae. For a listing of the eligible conventional mortgage insurers and their associated mortgage insurance codes, see *Approved Mortgage Insurers and Related Identifiers.* The website is the definitive source for approved mortgage insurers.

The form of mortgage insurance policy, including any endorsements, must be acceptable to Fannie Mae.

Use of Approved Forms

Lenders are responsible for ensuring that only Fannie Mae-approved mortgage insurance forms and related endorsements and other forms (Forms) are used in connection with individual loans sold to or securitized by Fannie Mae. These Forms provide the terms of mortgage insurance coverage on individual loans. A list of Fannie Mae-approved Forms for each insurance provider is available on Fannie Mae's website – see *Approved Mortgage Insurance Forms*.

Any mortgage loan sold to or securitized by Fannie Mae that requires primary mortgage insurance (or is delivered with primary mortgage insurance even though not required) and has a loan application date on or after October 1, 2014, must be insured under one of the Fannie Mae-approved Forms. If such loan is insured under any pre-existing forms or agreements between lenders and mortgage insurers, the loan is not eligible for sale to Fannie Mae, and is subject to repurchase if identified after acquisition by Fannie Mae.

Any mortgage loan sold to or securitized by Fannie Mae that requires primary mortgage insurance (or is delivered with primary mortgage insurance even though not required) and has a loan application date prior to October 1, 2014, may be insured under either

- one of the Fannie Mae-approved Forms; or
- any pre-existing forms and agreements between lenders and mortgage insurers, as long as the lender first confirms with the mortgage insurer that such forms and agreements were approved by Fannie Mae for use at the time of the loan application date.

LTV Ratio Determination in New York State

Under a New York statute, a mortgage insurer must issue mortgage insurance based on a determination of the "fair market value" of the property. The term "fair market value" is not defined in the statute, but has been defined by the New York insurance regulator as being the "appraised value." Per the statute, for co-op properties, the issuance of mortgage insurance must be based on the "purchase price of the ownership interest and the proprietary lease."

As a result, the determination of value for properties in New York is different from Fannie Mae's standard definition of value that is used to calculate the LTV ratio. The following table identifies the value calculation that is to be used for mortgage loans secured by properties in New York for policies that are based on the LTV ratio.

LTV Ratio Calculation	Policy
LTV ratio based on the appraised value for non-co-op properties	• Lenders must base their determination of when mortgage insurance is required solely on the appraised value of the property. If the appraised value of the property exceeds the sales price, this determination may result in mortgage insurance not being placed on a mortgage loan as would otherwise be required using Fannie Mae's standard definition. • If this calculation results in mortgage insurance not being placed on the loan where mortgage insurance would otherwise have been required using Fannie Mae's standard definition, the lender must deliver the loan to Fannie Mae using the MI Absence Reason Type of "No MI Based On Original LTV" (Sort ID 429).

LTV Ratio Calculation	Policy
LTV ratio based on the sales price for co-op properties	• For purchase transactions, lenders must base their determination of when mortgage insurance is required solely on the sales price for the co-op property. If the sales price of the property is more than the appraised value, this determination may result in mortgage insurance not being placed on a mortgage loan as would otherwise be required using Fannie Mae's standard definition. **Note:** For purchase transactions when the co-op property is subject to resale restrictions that terminate automatically upon foreclosure and the appraised value exceeds the sales price, lenders may use the appraised value of the property without resale restrictions, rather than the sales price when determining when mortgage insurance is required. For additional information on calculating LTV ratios on loans with resale restrictions, see B5-5.2-02, Loans with Resale Restrictions: Eligibility, Collateral and Delivery Requirements and B5-5.3-03, Shared Equity Transactions: Eligibility, Underwriting and Collateral Requirements. • If this calculation results in mortgage insurance not being placed on the loan where mortgage insurance would otherwise have been required using Fannie Mae's standard definition, the lender must deliver the loan to Fannie Mae using the MI Absence Reason Type of "No MI Based On Original LTV" (Sort ID 429).
LTV ratio based on the appraised value for refinances of co-op share loans	• Lenders must base their determination of when mortgage insurance is required for a refinance transaction for co-op share loans solely on the appraised value.

LTV Ratio Calculation	Policy
LTV ratio based on the lower of the sales price or appraised value (standard LTV ratio calculation) for all property types	• Irrespective of the use of appraised value or sales price for determining whether mortgage insurance is required, this standard LTV ratio calculation must be used to determine the **level** of mortgage insurance coverage that is required on the mortgage loan. See B1-1-01, Contents of the Application Package, and B7-1-02, Mortgage Insurance Coverage Requirements, for additional information. • The standard LTV ratio calculation must also be used ∘ to determine whether the loan satisfies any of Fannie Mae's other eligibility criteria that are based on the LTV ratio of the loan; ∘ to determine any loan-level price adjustments derived from Fannie Mae's pricing matrix that includes LTV ratios or CLTV ratios as a risk attribute in its lookup table; and ∘ when the loan is delivered to Fannie Mae (Sort ID 254). (The standard LTV ratio must be delivered even if the appraised value or sales price is used to determine that mortgage insurance coverage is not required.)

Payment of Mortgage Insurance Premiums

Premium plans for mortgage insurance may be:

- monthly plans – monthly premiums from accumulated escrow deposits (with no initial payment at closing),
- annual plans – an initial payment at closing to cover the first year's premium and annual renewal premiums thereafter paid from accumulated escrow deposits,
- single-premium plans – lump-sum premium at closing to purchase life-of-the-mortgage coverage, or
- split-premium plans – an initial payment at closing and an ongoing monthly premium from accumulated escrow deposits.

Mortgage Insurability

Each loan a lender delivers to Fannie Mae must be insurable. A mortgage is insurable if a mortgage insurer would not decline to insure it by reason of any fraud, misrepresentation, negligence, or dishonest, criminal, or knowingly wrongful act in origination or servicing, and would not be entitled to deny a claim by reason of any of the foregoing.

Prohibition of Certain Mortgage Insurance Agreements

Fannie Mae prohibits lenders from entering into any agreement that modifies the terms of an approved mortgage insurance master policy on loans delivered to or intended for delivery to Fannie Mae. Prohibited agreements include, but are not limited to, agreements that directly or indirectly:

- modify master policy provisions for settling of claims,
- limit the right of a mortgage insurer to conduct file reviews or investigate claims,
- limit the right of a mortgage insurer to rescind coverage,
- rescind or modify coverage, or
- restrict notice to Fannie Mae of changes in coverage status.

Further, Fannie Mae prohibits loss sharing, indemnification, settlement, or similar agreements of any kind between lenders and mortgage insurance companies that affect Fannie Mae's interest in its mortgage loans or modify the terms of an approved mortgage insurance master policy on loans delivered to or intended for delivery to Fannie Mae. Traditional captive reinsurance arrangements between a mortgage insurance company and a licensed insurer or reinsurer may be permissible so long as they do not:

- affect Fannie Mae's interest in its mortgage loans, or
- modify the terms of an approved mortgage insurance master policy on loans delivered to or intended for delivery to Fannie Mae.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-01	February 03, 2021
Announcement SEL-2020-05	September 02, 2020
Announcement SEL-2019-07	August 07, 2019

B7-1-02, Mortgage Insurance Coverage Requirements (08/07/2019)

Introduction

This topic contains information on mortgage insurance coverage requirements for first-lien mortgage loans.

- Mortgage Insurance Coverage Requirements

Mortgage Insurance Coverage Requirements

The table below provides the mortgage insurance coverage requirements for first–lien mortgages. For certain transactions, Fannie Mae offers two mortgage insurance coverage level options: standard coverage for the transaction type (noted with ^) and minimum coverage (noted with *) with corresponding LLPAs. Lenders who choose less than standard coverage (but no lower than minimum coverage) will be assessed an LLPA based on the LTV ratio and representative credit score for the mortgage loan. The minimum mortgage insurance LLPAs can be found in the Loan-Level Price Adjustment (LLPA) Matrix, and are in addition to any other LLPAs that may apply to the transaction.

Mortgage Insurance Coverage Requirements				
	LTV Range			
Transaction Type	**80.01 – 85.00%**	**85.01-90.00%**	**90.01-95.00%**	**95.01-97.00%**
All property types (including MH Advantage) other than standard manufactured homes				
Fixed-rate, term ≤ 20 years	6%	12%	16%* + MI LLPA	18%* + MI LLPA
			25%^	35%^
Fixed-rate, term > 20 years All ARMs	6%* + MI LLPA	12%* + MI LLPA	16%* + MI LLPA	18%* + MI LLPA
	12%^	25%^	30%^	35%^
HomeReady mortgages: Fixed-rate, term ≤ 20 years	6%	12%	16%* + MI LLPA	18%* + MI LLPA
			25%^	25%^

<table>
<tr><th colspan="5">Mortgage Insurance Coverage Requirements</th></tr>
<tr><td rowspan="2">HomeReady mortgages: Fixed-rate, term > 20 years All ARMs</td><td>6%* + MI LLPA</td><td>12%* + MI LLPA</td><td>16%* + MI LLPA</td><td>18%* + MI LLPA</td></tr>
<tr><td>12%^</td><td>25%^</td><td>25%^</td><td>25%^</td></tr>
<tr><td colspan="5">Standard manufactured homes (not MH Advantage)</td></tr>
<tr><td rowspan="2">Fixed-rate, ARM, any term</td><td>6%* + MI LLPA</td><td>12%* + MI LLPA</td><td>16%* + MI LLPA</td><td rowspan="4">Not applicable</td></tr>
<tr><td>12%^</td><td>25%^</td><td>30%^</td></tr>
<tr><td rowspan="2">HomeReady mortgages</td><td>6%* + MI LLPA</td><td>12%* + MI LLPA</td><td>16%* + MI LLPA</td></tr>
<tr><td>12%^</td><td>25%^</td><td>25%^</td></tr>
</table>

The following additional requirements apply:

- Mortgage insurance requirements for HomeReady apply when HomeReady and HomeStyle Renovation are combined.
- The minimum levels (*with an LLPA) are eligible for HomeReady mortgages as indicated; however, the mortgage insurance LLPA will be assessed in all cases regardless of any LLPA limits.

See B7-1-04, Financed Borrower-Purchased Mortgage Insurance, for additional information about mortgage insurance coverage for financed mortgage insurance transactions.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2019-03	April 03, 2019
Announcement SEL-2018-06	August 07, 2018

Announcements	Issue Date
Announcement SEL-2018-05	June 05, 2018

B7-1-03, Lender-Purchased Mortgage Insurance (05/27/2010)

Introduction

This topic contains information on lender-purchased mortgage insurance, including:

- Overview
- Lender Requirements

Overview

Fannie Mae accepts lender-purchased mortgage insurance coverage for all loan types except adjustable-rate mortgages that can be converted to fixed-rate mortgages.

Fannie Mae will consider accepting lender-purchased mortgage insurance for convertible adjustable-rate mortgages that are in MBS pools if the lender uses the “market rate” post-conversion disposition option and assumes all interest rate risk.

Lender Requirements

When providing lender-purchased mortgage insurance, the lender must:

- make any and all disclosures to the borrower that are either required by law, including the Homeowners Protection Act of 1998, or are otherwise appropriate for lender-purchased mortgage insurance coverage;
- pay for the mortgage insurance coverage as a corporate obligation with an initial premium and renewal premiums for each subsequent period of coverage, which may be a month or a year. Lump-sum premium plans that provide coverage for the life-of-the-mortgage loan also are acceptable;
- increase the servicing compensation it would otherwise be required to retain for the mortgage loan (whether the mortgage loan is submitted as a whole loan or MBS pool delivery) by at least the amount of the mortgage insurance renewal premium. (This is not required for lump-sum premium plans that provide life-of-the-mortgage coverage.);
- keep the mortgage insurance coverage in effect until the mortgage is paid in full;

- deliver the loan with SFC 019; and
- when servicing is transferred, the lender must provide the new servicer with a list of all mortgage loans with this type of insurance that are included in the portfolio that is being transferred (identifying the applicable premium rates), explaining the premium payment obligations and procedures applicable to these mortgage loans, and transferring the accruals on deposit for the payment of future renewal premiums to the new servicer (or making an appropriate adjustment to the servicing transfer settlement).

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B7-1-04, Financed Borrower-Purchased Mortgage Insurance (12/15/2021)

Introduction

This topic contains information on financed borrower-purchased mortgage insurance, including:

- Financed Mortgage Insurance Requirements
- Ineligible Transactions
- Delivery Requirements
- Prepaid Mortgage Insurance Transactions

Financed Mortgage Insurance Requirements

Financed mortgage insurance transactions are defined by all of the following characteristics:

- All or a portion of the borrower-purchased mortgage insurance premium (split and single-premium plans) is included in the loan amount.
- The loan amount including the financed mortgage insurance premium cannot exceed the applicable maximum Fannie Mae loan limit. See B2-1.5-01, Loan Limits.
- The loan purpose is purchase, construction, or limited cash-out refinance.
- The loan is secured by a one-unit property that is the borrower's principal residence or second home.
- The mortgage insurance coverage amount can be standard coverage (which does not require an LLPA) or minimum coverage (with a corresponding LLPA).
- The mortgage insurance coverage amount is determined based on the base (or net) LTV ratio – the LTV ratio calculated without the financed premium.
- The gross LTV ratio – the LTV ratio calculated with the financed premium – is used to determine the

maximum LTV ratio permitted for the transaction. The LTV ratio may never exceed the LTV ratio allowed per the *Eligibility Matrix*.

- If the loan is subject to any LLPAs, the LLPAs are based on the gross LTV ratio, except for minimum mortgage insurance LLPAs, which are based on the base (or net) LTV ratio.
- The lender must ensure that language related to any financed mortgage insurance premium is included either directly in the applicable mortgage insurance master primary policy or in an endorsement to that policy, which language provides that the insurance benefit paid pursuant to the “percentage option” in satisfaction of a claim be calculated as:
  - [the claim amount minus the unamortized portion of the financed mortgage insurance premium] multiplied by the applicable coverage percentage, **PLUS**
  - the unamortized portion of the financed mortgage insurance premium.
- Certain delivery requirements for financed mortgage insurance transactions must be met. See Delivery Requirements below.

> **Note:** Fannie Mae provides two options for limited cash-out refinance transactions that include mortgage insurance in the loan amount. A “financed mortgage insurance transaction” requires the lender to identify the upfront financed mortgage insurance amount separately and provide the required special feature code at delivery such that the base LTV can be determined. All of the above requirements must be met for the transaction to be defined as a financed mortgage insurance transaction. A “prepaid mortgage insurance transaction” permits the lender to include the amount of the upfront mortgage insurance premium and other allowable closing costs and prepaid items in the loan amount, and not separately identify the prepaid mortgage insurance at delivery. See Prepaid Mortgage Insurance Transactions below for additional information.

Ineligible Transactions

The following mortgage loans are not eligible for delivery to Fannie Mae if they include financed borrower-purchased mortgage insurance:

- mortgage loans secured by two- to-four-unit properties,
- mortgage loans secured by investment properties, and
- cash-out refinance loans.

  > **Note**: Lender-paid mortgage insurance premiums cannot be financed into the loan amount and are therefore not considered financed mortgage insurance transactions.

Delivery Requirements

The following delivery requirements apply to financed mortgage insurance transactions:

- The Financed MI Amount and MI Financed Indicator must be delivered.
- The delivery file must also contain the purchase price (for purchase transactions) and appraised value (for purchase and refinance transactions) to allow for accurate calculation of the base LTV ratio.

- The loan must be delivered with SFC 281.
- All other mortgage insurance-related data elements must be provided (MI Company Name, Percent of MI Coverage, Certificate Number, and MI Source).

For additional information, see Uniform Loan Delivery Dataset (ULDD) on Fannie Mae's website.

Prepaid Mortgage Insurance Transactions

Fannie Mae’s refinance guidelines permit borrowers to finance the payment of closing costs, prepaid items, and points in the loan amount. When the borrower includes any portion of the borrower-paid mortgage insurance premium or monthly escrows into the loan amount (with other closing costs or prepaid items), it is considered a “prepaid mortgage insurance transaction” and not a financed mortgage insurance transaction. For a loan to be eligible for delivery to Fannie Mae with prepaid mortgage insurance, the loan must meet all the standard requirements of this Selling Guide, and the following requirements applicable to this type of loan:

- The mortgage insurance coverage amount is determined based on the LTV ratio that is calculated after the inclusion of all the closing costs, prepaid items, and points. (The concept of “gross LTV ratio” and “base LTV ratio” are not applicable to prepaid mortgage insurance transactions because the financed mortgage insurance amount is not identified at loan delivery.)
- The loan is not to be delivered as a financed mortgage insurance transaction – lenders should not deliver SFC 281 or the other financed mortgage insurance data elements.
- The Financed MI Premium Endorsement to the mortgage insurance policy should not be obtained.

Recent Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements and Release Notes	Issue Date
Announcement SEL-2021-11	December 15, 2021

B7-1-05, Government Mortgage Loan Guaranty or Insurance (02/23/2016)

Introduction

This topic contains information on government mortgage loan guaranty or insurance, including:

Evidence of Government Guaranty or Insurance

Lenders must obtain the required government guaranty or government insurance. The following table lists the acceptable forms of evidence of government guaranty or insurance:

Mortgage Type	Evidence
FHA	*FHA Mortgage Insurance Certificate (HUD Form 59100)*
VA	*VA Loan Guaranty Certificate* (VA Form 26-1899)
RD	*RD Loan Note Guarantee* (Form RD 1980-17)
HUD Section 184	*Indian Loan Guarantee Certificate (HUD Form 53039)*

Inability to Obtain Guaranty or Insurance Prior to Delivery

Evidence of the guaranty or insurance should be obtained before loan delivery, if possible. If this is not possible, the lender represents and warrants, by delivery of the loan, all of the following:

- A complete and satisfactory mortgage guaranty or insurance application was submitted to the government agency within the required time frame, either based on an agency's prior approval of the loan application and issuance of a commitment to insure or guarantee, or subject to an agency's delegated or automatic loan approval processing, as applicable.
- The mortgage insurance premiums, funding fee, or guarantee fees were paid to the government agency within the government agency's required time frame.
- The government agency has the legal authority to issue the guaranty or insurance and will have such authority for long enough to issue the guaranty or insurance within a time period that is consistent with its past practice.

After delivery of a mortgage loan, if a lender fails to obtain the guaranty or insurance in a timely manner, as determined by Fannie Mae, the lender must repurchase the mortgage and make Fannie Mae whole for any losses incurred by Fannie Mae. In addition, Fannie Mae may suspend or terminate the lender's authority to deliver the following:

- mortgages for which it has not already received the government mortgage guaranty or insurance,
- any government mortgage or any particular category of government mortgage, or
- any mortgage.

The lender must notify its Fannie Mae customer account team if the government agency declines to issue the mortgage guaranty or insurance for any reason for any loan delivered to Fannie Mae.

Fannie Mae may require the lender to provide periodic reports on the guaranty or insurance status for all government mortgages sold to Fannie Mae. Such reports must be provided within the requested time frame.

Lapse of Governmental Authority

Occasionally, a government agency's guaranty or insurance authority may lapse. This occurrence is in contrast to ordinary circumstances in which there may be a delay in obtaining the government guaranty or insurance, but there is no reason to expect the government agency not to provide the guaranty or insurance within a time period that is consistent with its past practice.

Mortgages that are not yet guaranteed or insured due to a lapse of governmental authority must be delivered with the government loan identifier in accordance with Fannie Mae's usual procedures. However, for credit enhancement purposes, Fannie Mae treats such mortgages as conventional mortgages, rather than as government mortgages.

Fannie Mae will accept delivery of such mortgages only if:

- The government agency is continuing to accept applications and permit lenders to create direct endorsements or conditional commitments during the period of the lapse.
- The delivery is for portfolio purchase rather than issuance of MBS.
- The lender agrees to the repurchase requirements described below.

The lender must repurchase the mortgage and make Fannie Mae whole for any losses incurred by Fannie Mae in the following situations:

- for whole loans in Fannie Mae's portfolio, if the mortgage becomes delinquent before the insurance or guaranty is issued;
- the lender fails to notify Fannie Mae of its receipt of the guaranty or insurance within 60 days of when the government agency resumes issuance of the guaranty or insurance;
- the lender delivers a mortgage that the government agency cannot insure or guarantee.

Special Feature Code for Lapse of Government Authority

When a lender delivers mortgages during a lapse in government authority, it must include the government loan identifier in accordance with Fannie Mae's usual procedures and report SFC 001 at delivery, to indicate the existence of the lender's repurchase obligation in lieu of the government guaranty or insurance.

Upon receipt of the guaranty or insurance, the lender must contact its Fannie Mae customer account team to request removal of SFC 001. Once it is removed, Fannie Mae's record will reflect that the mortgage is government guaranteed or insured.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Chapter B7-2, Title Insurance

Introduction

This chapter contains information on title insurance, including required title insurance coverage, title insurer eligibility standards, special title insurance coverage considerations, acceptable and unacceptable title exceptions, and attorney title opinion letter requirements.

B7-2-01, Provision of Title Insurance (04/06/2022)

Introduction

This topic contains information on provision of title insurance.

- Provision of Title Insurance

Provision of Title Insurance

Each mortgage loan purchased by Fannie Mae must have a title insurance policy in place or an attorney title opinion letter that meets Fannie Mae's requirements.

By selling a mortgage loan to Fannie Mae, the lender must ensure the loan is either covered by a title policy issued by an acceptable insurer, including any required endorsements, or a title opinion letter issued by an attorney.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-03	April 06, 2022

B7-2-02, Title Insurer Requirements (06/05/2019)

Introduction

This topic contains the following:

- Title Insurer Requirements
- Insurer Covered by Reinsurance

Title Insurer Requirements

A title insurer must be:

- duly authorized and licensed, as required, to issue title insurance in the state where the property is located; and
- further evaluated in accordance with the lender's procedures for title insurer approval, which may include factors such as
  - an acceptable rating from a rating agency,
  - financial strength of the title insurer,
  - adequate reserves,
  - record related to satisfactory title claim resolution, or
  - strength of a reinsurance arrangement subject to the guidelines below.

> **Note:** Iowa Title Guaranty is an acceptable title guarantor for properties located in the state of Iowa.

Insurer Covered by Reinsurance

If the lender accepts an insurer based on the strength of a reinsurer, both the primary insurer and the reinsuring company must be licensed, as required, to issue title insurance within the state where the property is located and are in good standing with that state's insurance regulator.

Both insurance carriers must execute an *Assumption of Liability Endorsement* (Form 858) or an equivalent endorsement that provides for 100% reinsurance of the primary insurer's policy and a 90-day written notice of termination of the reinsurance agreement. The alternative endorsement must be attached to the title insurance policy for each individual mortgage.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-05	June 05, 2019

B7-2-03, General Title Insurance Coverage (07/06/2022)

Introduction

This topic contains information on general title insurance coverage.

- Terms of Coverage
- Effective Date of Coverage
- Amount of Coverage
- Other Requirements

Terms of Coverage

The title insurance policy must ensure that the title is generally acceptable and that the mortgage constitutes a lien of the required priority on a fee simple or leasehold estate in the property.

The title policy also must list all other liens and state that they are subordinate to Fannie Mae's mortgage lien.

Loan Origination Date	Title Policy Requirements
On or after January 1, 2024	The title policy must be written on one of the following forms: • the 2021 American Land Title Association (ALTA) Loan Policy; • an ALTA short form if it provides coverage equivalent to the 2021 ALTA Loan Policy and does not materially impair protection to Fannie Mae; • in states in which standard ALTA forms of coverage are, by law or regulation, not used, the state-promulgated standard or short form which provides same coverage as the equivalent ALTA form, provided that those forms do not materially impair protection to Fannie Mae.
Prior to January 1, 2024	The title policy must be written on one of the following forms: • the 2006 American Land Title Association (ALTA) Loan Policy or 2021 ALTA Loan Policy; • an ALTA short form if it provides coverage equivalent to either the 2006 ALTA Loan Policy or 2021 ALTA Loan Policy and does not materially impair protection to Fannie Mae; • in states in which standard ALTA forms of coverage are, by law or regulation, not used, the state-promulgated standard or short form which provides same coverage as the equivalent ALTA form, provided that those forms do not materially impair protection to Fannie Mae.

Effective Date of Coverage

The effective date of the title insurance coverage written on forms that do not provide the gap coverage included in the 2006 and 2021 ALTA policies may be no earlier than the later of the date of the final disbursement of loan proceeds or the date the mortgage was recorded.

Because the 2006 and 2021 ALTA forms provide protection for the time between loan closing and recordation of the mortgage, policies written on those forms may be effective as of loan closing.

Amount of Coverage

The amount of title insurance coverage must at least equal the original principal amount of the loan.

Other Requirements

If a mortgage is registered with MERS and is originated naming MERS as original mortgagee of record, solely as nominee for the lender named in the security instrument and the note, and the lender's successors and assigns, then the "insured mortgage" covered by the title insurance policy must be identified in the title insurance policy as the security instrument given to MERS, solely as nominee for the lender and lender's successors and assigns. However, under no circumstances may MERS be named as the insured of a title policy.

The title insurance coverage must include an environmental protection lien endorsement (ALTA 8.1 Environmental Protection Lien Endorsement or equivalent state form that provides the required coverage).

References are to the ALTA form of endorsement, but state forms may be used as described in T*erms of Coverage*. As an alternative to endorsements, the requisite protections may be incorporated into the policy. For loans originated prior to January 1, 2008, endorsement forms that meet Fannie Mae's requirements at the time of origination are acceptable.

Title policies may not include the creditors' rights exclusion language that ALTA adopted in 1990.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-06	July 06, 2022

B7-2-04, Special Title Insurance Coverage Considerations (05/03/2023)

Introduction

This topic provides specific requirements for title insurance coverage related to certain types of loan products or types of subject properties, including:

- Condo and PUD Unit Mortgages
- Co-op Share Loans
- Mortgages Subject to Leasehold Estates
- Other Mortgages

Condo and PUD Unit Mortgages

The title insurance policy for a condo or PUD unit mortgage must describe all components of the unit estate.

For condo units, an ALTA 4 or 4.1 endorsement or its equivalent is required. For PUD units, an ALTA 5 or 5.1 endorsement or its equivalent is required. These endorsements must be attached to each policy or incorporated in the text of the policy.

If the unit owners own the common areas of the project as tenants in common, the policy for each unit mortgage must reflect that ownership. If the homeowners' association owns the common elements, areas, or facilities of the project separately (or holds them in a leasehold estate), the title insurance on those areas must insure that ownership. This title policy must show that title to the common elements, areas, or facilities is free and clear of any objectionable liens and encumbrances, including any statutory or mechanic's liens for labor or materials related to improvements on the common areas that began before the title policy was issued.

The title policy must protect Fannie Mae by insuring the following:

- that the mortgage is superior to any lien for unpaid common expense assessments. (In jurisdictions that give these assessments a limited priority over a first mortgage, the policy must provide assurance that those assessments have been paid through the effective date of the policy.)
- against any impairment or loss of title of Fannie Mae's first mortgage caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the project. (It must specifically insure against any loss that results from a violation that existed as of the date of the policy.)
- that the unit does not encroach on another unit or on any of the common elements, areas, or facilities. (The policy also must insure that there is no encroachment on the unit by another unit or by any of the common elements, areas, or facilities.)
- that the loan is secured by a unit in a condo project that has been created in compliance with the applicable enabling statutes;
- that real estate taxes are assessable and lienable only against the individual condo unit and its undivided interest in the common elements, rather than against the project as a whole; and
- that the owner of a PUD unit is a member of the homeowners' association and that the membership is transferable if the unit is sold.

Co-op Share Loans

When co-op shares are recognized as real property, a title policy is required. Title evidence for a co-op share loan must ensure that:

- the title is generally acceptable,
- the borrower has good and marketable title to the shares, and
- the co-op corporation has good and marketable title to the project.

When co-op shares are considered personal property and therefore cannot be insured under standard title policies, the title must be generally acceptable, the borrower must have title to the shares, and the co-op corporation must have good and marketable title to the project.

Mortgages Subject to Leasehold Estates

A mortgage that is subject to a leasehold estate must have an ALTA Endorsement 13.1.

For loans secured by properties held by a community land trust, see *Title Insurance and Delivery Requirements* in B5-5.3-03, Shared Equity Transactions: Eligibility, Underwriting and Collateral Requirements.

Other Mortgages

The table below provides the title insurance coverage requirements or endorsements for other types of loans.

Transaction Type	Title Insurance Requirements
Conventional HomeStyle loan or FHA Section 203(k) home improvement loan	The policy must cover the full amount of the recorded mortgage, must be dated concurrently with the recordation of the mortgage, and must be updated to the date on which renovation work is completed.
ARM loan	The policy must include ALTA Endorsement 6.
Manufactured home loan	The policy must include ALTA Endorsement 7, 7.1, or 7.2.
Native American Housing Initiative loan	For a HUD-guaranteed Section 184 mortgage, when title to the security property is held as a fee simple estate, Fannie Mae requires a title insurance policy that satisfies its general requirements. For all other HUD-guaranteed Section 184 mortgages, Fannie Mae relies on the title status report issued by the Land Titles and Records Office of the Bureau of Indian Affairs.
Texas Section 50(a)(6) loan	Fannie Mae requires a Mortgagee Policy of Title Insurance (Form T-2), supplemented by an Equity Loan Mortgage Endorsement (Form T-42) including the optional coverage provided by Paragraph 2(f) and a Supplemental Coverage Equity Loan Mortgage Endorsement (Form T-42.1). Refer to B5-4.1-03, Texas Section 50(a)(6) Loan Underwriting, Collateral, and Closing Considerations for more information.

Transaction Type	Title Insurance Requirements
Conventional construction-to-permanent loan	When closed as a single transaction for both the construction loan and the permanent financing, the policy must be dated concurrently with the date of the mortgage and must include (1) a "pending disbursements" clause and (2) a final endorsement to the title policy that extends the effective date of the coverage to the later of the final construction advance date or the endorsement date. When closed as two separate transactions (one for the construction phase and one for the permanent financing), the policy must satisfy Fannie Mae's standard title insurance requirements for permanent mortgages.
Loans with remotely notarized loan documents	If the notarized document is a security instrument or an amendment to a security instrument, the remote notarization must be disclosed to the title company providing title insurance coverage and either: • an affirmative endorsement to the title insurance policy is obtained regarding Exclusion 3(b) in the standard ALTA terms and conditions; or • the title insurer has not taken an exception for the remote notarization in the title insurance policy and all related communications with the title insurer are kept in the loan file.
Shared equity loans	See *Title Insurance and Delivery Requirements* in B5-5.3-03, Shared Equity Transactions: Eligibility, Underwriting and Collateral Requirements for requirements related to loans secured by properties held by community land trusts and loans secured by properties with income and resale price restrictions.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-04	May 03, 2023
Announcement SEL-2022-06	July 06, 2022
Announcement SEL-2020-05	September 02, 2020
Announcement SEL-2019-01	February 06, 2019

B7-2-05, Title Exceptions and Impediments (07/06/2022)

Introduction

This topic contains information on title exceptions, including:

- Title Exceptions
- Minor Impediments to Title for Conventional Loans
- Title Impediment – Loans Secured by Properties with Unexpired Redemption Periods

Title Exceptions

Fannie Mae will not purchase or securitize a loan secured by property that has an unacceptable title impediment, particularly unpaid real estate taxes and survey exceptions.

If surveys are not commonly required in particular jurisdictions, the lender must provide an ALTA 9 Endorsement. If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have a survey exception.

Minor title impediments must not materially affect the marketability of the property. The lender must indemnify Fannie Mae (as described in A2-1-03, Indemnification for Losses) for any Fannie Mae losses that can be directly attributed to the impediment(s).

Minor Impediments to Title for Conventional Loans

Title for a property that secures a conventional loan is acceptable even though it may be subject to the following conditions, which Fannie Mae considers minor impediments:

- customary public utility subsurface easements that were in place and completely covered when the loan was originated, as long as they do not extend under any buildings or other improvements;
- above-surface public utility easements that extend along one or more of the property lines for distribution purposes or along the rear property line for drainage purposes, as long as they do not extend more than 12 feet from the property lines and do not interfere with any of the buildings or improvements or with the use of the property itself;
- mutual easement agreements that establish joint driveways or party walls constructed on the security property and on an adjoining property, as long as all future owners have unlimited and unrestricted use of them;
- restrictive covenants and conditions, and cost, minimum dwelling size, or set back restrictions, as long as their violation will not result in a forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the property;
- encroachments of one foot or less on adjoining property by eaves or other overhanging projections or by driveways, as long as there is at least a ten-foot clearance between the buildings on the security property and the property line affected by the encroachment;
- encroachments on adjoining properties, as long as those encroachments consist only of hedges or removable fences;
- outstanding oil, water, or mineral rights that are customarily waived by other lenders, as long as they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes;
- variations between the appraisal report and the records of possession regarding the length of the property lines, as long as the variations do not interfere with the current use of the improvements and are within an acceptable range. (For front property lines, a 2% variation is acceptable; for all other property lines, 5% is acceptable.);
- rights of lawful parties in possession, as long as such rights do not include the right of first refusal to purchase the property. (No rights of parties in possession, including the term of a tenant’s lease, may have a duration of more than two years.);
- minor discrepancies in the description of the area, as long as the lender provides a survey and affirmative title insurance against all loss or damage resulting from the discrepancies;
- exceptions to Indian claims, as long as the lender is insured against all loss and damage from such claims.

Title Impediment – Loans Secured by Properties with Unexpired Redemption Periods

Certain state laws provide a “redemption period” after a foreclosure or tax sale has occurred, during which time the property may be reclaimed by the prior mortgagor or other party upon payment of all amounts owed. The length of the redemption period varies by state and does not expire automatically upon sale of the property to a new owner. Although an unexpired redemption period will generally be deemed to be an unacceptable title impediment, Fannie Mae will consider it to be acceptable provided the following requirements are met:

✓	Requirements for Loans Subject to Unexpired Redemption Periods
	The property must be located in a state where it is common and customary to sell single-family residential property during the redemption period. **Note:** Loans representing the purchase of Fannie Mae-owned properties which have been sold during the redemption period may be subject to separate negotiations.
	The mortgagee policy of title insurance must take specific exception to the unexpired right of redemption but also affirmatively insure the mortgagee against all loss arising out of the exercise of any outstanding right of redemption, without qualification.
	If any party exercises a right to redeem the mortgaged property, the loan must be paid off directly out of the redemption proceeds with no requirement for any further action or claim for repayment.
	The lender must indemnify Fannie Mae (as described in A2-1-03, Indemnification for Losses) for any losses incurred by Fannie Mae that can be directly attributed to the exercise by any party of a right to redeem the mortgaged property, including without limitation, a loss related to borrower default due to a dispute with the redeeming party over the terms of the redemption.

> **Note:** Fannie Mae strongly encourages lenders to provide written disclosure to borrowers of properties that are subject to unexpired redemption periods if not otherwise required by law (or disclosed by the title company).

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-06	July 06, 2022
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2019-01	February 06, 2019

B7-2-06, Attorney Title Opinion Letter Requirements (04/06/2022)

Introduction

This topic contains information on the following:

- Attorney Title Opinion Letter Requirements
- Ineligible Transactions
- Special Feature Code

Attorney Title Opinion Letter Requirements

Lenders are authorized to use an attorney title opinion letter in lieu of a title insurance policy if all of the conditions in the following table are satisfied.

✓	**The attorney title opinion letter must…**
	be addressed to the lender and all successors in interest of the lender.
	provide the following statement: We [I] agree to indemnify you and your successors in interest in the [mortgage] [deed of trust] opined hereto, to the full extent of all losses attributable to a breach of our [my] duty to exercise reasonable care and skill in the examination of the title and giving of this opinion.
	provide the gap coverage for the period of time between the loan closing and the recordation of the mortgage.
	state that the title condition of the property is acceptable and the mortgage constitutes a lien of the required priority on a fee simple estate in the property.
	list other liens and state that they are subordinate.
	be given by an attorney licensed to practice law in the jurisdiction where the subject property is located. The attorney must also be insured against malpractice in rendering opinions of title in an amount commonly prevailing in the jurisdiction, taking into account the volume of opinions rendered by the attorney.

✓	**The attorney title opinion letter must...**
	be commonly acceptable in lieu of title insurance by private institutional mortgage investors in the area where the subject property is located.
	include language relating to the coverage normally provided by ALTA Endorsement 8.1 (Environment Protection Lien). Section (a) of the endorsement insures that there are no environmental protection liens filed in the public records that have priority over the lien of the insured mortgage; Section (b) insures that there are no state statutes that provide that liens filed after the date of the policy would have priority over the lien of the insured mortgage. An attorney may include an exception for possible subsequent super liens that could take priority over the mortgage only if the subject property is located in a state whose state statutes provide for such a super lien.
	include the following if the loan is an ARM: The law of the state in which the property securing the mortgage is located provides that (i) the lien of the mortgage will not become invalid or unenforceable resulting from provisions in the mortgage that provide for changes in the interest rate calculated pursuant to the formula provided in the mortgage, and (ii) priority of the lien of the mortgage for the UPB of the loan, together with interest as changed and other sums advanced by the noteholder in accordance with the provisions of the mortgage, will not be lost as a result of changes in the rate of interest calculated pursuant to the formula provided in the mortgage.
	include the following if the loan is secured by a unit in a PUD: • there is no present violation of any restrictive covenants that are in the PUD constituent documents and restrict the use of the land or the forfeiture or reversion of title, • all dues applicable to the subject property are current and not delinquent, and • no recorded right of first refusal to purchase the land was exercised or could have been exercised on or before the closing date of the loan and the undersigned is unaware of the existence or the exercise of any right of first refusal on or before the closing date of the loan.
	not take exception to survey matters. In addition, the opinion must not be subject to any title exceptions other than those set forth in B7-2-05, Title Exceptions and Impediments.

Ineligible Transactions

The following transactions are not eligible for an attorney title opinion letter:

- loans secured by a unit in a condo project;

- co-op share loans;
- loans secured by a dwelling on a leasehold estate, including leasehold estates on property owned by a community land trust;
- loans secured by a manufactured home;
- HomeStyle Energy and HomeStyle Renovation loans;
- Texas Section 50(a)(6) loans;
- loans secured by property subject to restrictive agreements or restrictive covenants; and
- loans executed using a power of attorney.

Special Feature Code

The lender must report Special Feature Code 155 when delivering a loan that uses an attorney title opinion letter in lieu of a title insurance policy. This code is in addition to any other SFCs that may apply (see *Special Feature Codes* for additional information).

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcement	Issue Date
Announcement SEL-2022-03	April 06, 2022

Chapter B7-3, Property and Flood Insurance

Introduction

This chapter describes Fannie Mae's requirements for property and flood insurance, including those related to coverage types, amounts, and evidence. See *Servicing Guide* Chapter B-2, Property Insurance Requirements, Chapter B-3, Flood Insurance Requirements, and Chapter B-6, Lender-Placed insurance for additional servicer requirements.

B7-3-01, General Property Insurance Requirements for All Property Types (12/14/2022)

Introduction

This topic contains information on property insurance requirements for insurers, including:

- Overview
- Property Insurer Rating Requirements
- Exceptions to Insurer Rating Requirements
- Other Exceptions to Property Insurance Requirements

Overview

The borrower has the right to select the insurer of their choice to provide property insurance for the subject property, provided that the insurance meets Fannie Mae's requirements. The lender or servicer must ensure that the insurer, policy, and coverage meet Fannie Mae's requirements. In some cases, Fannie Mae may require additional coverage that differs from these requirements.

> **Note:** References to "lender or servicer" include the lender or seller at origination and the servicer for the duration of loan servicing.

Property Insurer Rating Requirements

The property insurance policy for the property securing any first mortgage, including master policies for project developments, must be written by an insurer that meets one of the rating requirements in the following table.

Rating Agency	Rating Category
AM Best Company	“B” or better Financial Strength
Demotech, Inc.	“A” or better *Insurance Financial Stability Rating*
Kroll Bond Rating Agency	“BBB” or better *Insurance Financial Strength Rating (IFSR)*
S&P Global	“BBB” or better Insurer Financial Strength Rating

> **Note:** An insurer is only required to meet the rating category requirement for one of the rating agencies, even if they are rated by multiple rating agencies.

Exceptions to Insurer Rating Requirements

The following are exceptions to Fannie Mae’s insurer rating requirements:

- **Second Mortgages** — The property insurance policy for a property that secures a second mortgage does not have to be written by an insurer that meets Fannie Mae’s rating requirements, unless Fannie Mae also has an interest in the first mortgage.
- **Mortgage Impairment (or Mortgagee Interest) Insurance** — If the lender or servicer, as applicable, is covered by a mortgage impairment (or mortgagee interest) insurance policy, and the issuer meets either the AM Best Financial Strength Rating or S&P Global Insurer Financial Strength Rating, as listed in *Property Insurer Rating Requirements*, Fannie Mae does not require confirmation that the borrower’s property insurance coverage is with an insurer that meets Fannie Mae’s rating requirements. However, in such instances, the lender should advise the borrower of Fannie Mae’s requirements when it originates the loan.
- **Reinsurance Arrangements** — Policies written by an insurer that do not meet Fannie Mae’s rating requirements are acceptable provided all conditions outlined in the following table are met.

✓	Conditions for Acceptable Reinsurance Arrangements
	The insurer is covered by reinsurance with a company that meets the AM Best Financial Strength Ratings or S&P Global Insurer Financial Strength Rating, as listed in *Property Insurer Rating Requirements.*
	The primary insurer and the reinsuring company are authorized (or licensed, if required) to transact business within the state where the property is located.
	The reinsurance agreement has a “cut-through” endorsement that provides for the reinsurer to become immediately liable for 100% of any loss payable by the primary insurer in the event the primary insurer becomes insolvent.
	Both the primary insurer and the reinsuring company execute an *Assumption of Liability Endorsement (Form 858)*, or any equivalent endorsement that provides for 100% reinsurance of the primary insurer’s policy and a 90-day written notice to Fannie Mae of the termination of the reinsurance arrangement. **Note:** Form 858 (or the equivalent endorsement) must be attached to each insurance policy covered by the reinsurance agreement, unless the lender or servicer, as applicable, is covered by a mortgage impairment (or mortgagee interest) insurance policy.
	The reinsurance agreement does not allow contributions or assessments to be made against Fannie Mae or to become a lien on the property that is superior to Fannie Mae’s lien.

✓	Conditions for Acceptable Reinsurance Arrangements
	The insurance written under the policy cannot exceed any dollar limitation amount specified in the reinsurance endorsement.

Other Exceptions to Property Insurance Requirements

Fannie Mae also accepts the following types of property insurance policies if they are the only coverage the borrower can obtain at the time of the loan closing or policy renewal:

- policies obtained through state or territory insurance plans, including a state’s Fair Access to Insurance Requirements (FAIR) plan, or
- other state-mandated windstorm and beach erosion insurance pools.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2021-11	December 15, 2021
Announcement SEL-2018-09	December 04, 2018

B7-3-02, Property Insurance Requirements for One-to Four-Unit Properties (12/14/2022)

Introduction

This topic contains information on property insurance requirements for one- to four-unit properties, including:

- Coverage Requirements
- Determining the Required Coverage Amount

- Deductible Requirements

Coverage Requirements

Property insurance policies for one- to four-unit properties securing loans purchased by Fannie Mae should be written on a "Special" coverage form or equivalent. At a minimum, the coverage must include the perils listed in the following table.

✓	Required Perils
	Fire or lightning
	Explosion
	Windstorm (including named storms designated by the U.S. National Weather Service or the National Oceanic and Atmospheric Administration by a name or number)
	Hail
	Smoke
	Aircraft
	Vehicles
	Riot or civil commotion

If a property insurance policy excludes or limits coverage of any of the required perils, the borrower must obtain an acceptable stand-alone policy that provides adequate coverage for the limited or excluded peril (see B7-3-05, Additional Insurance Requirements, for additional information).

The property insurance policy must provide for claims to be settled on a replacement cost basis. Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable.

Additional requirements apply to properties with solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangement. See B2-3-04, Special Property Eligibility Considerations, for additional requirements.

See B7-3-08, Mortgagee Clause, Named Insured, and Notice of Cancellation Requirements for additional requirements applicable to a one- to four-unit property.

Determining the Required Coverage Amount

The minimum required property insurance coverage amount for a first mortgage secured by a one- to four-unit property must be equal to the lesser of:

- 100% of the replacement cost value of the improvements, or
- the unpaid principal balance of the loan, provided it equals no less than 80% of the replacement cost value of the improvements.

The lender or servicer must verify the coverage amount is not less than the minimum required as described above, and the verification source may be the property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination.

If the coverage amount does not meet the minimum required, coverage that does provide the minimum required amount must be obtained.

The following table provides the steps to calculate the amount of required property insurance coverage.

Step	Description
1	Compare the replacement cost value of the improvements to the unpaid principal balance (UPB) of the loan.
1A	If the replacement cost value of the improvements is less than the UPB, the replacement cost value is the amount of coverage required.
1B	If the UPB of the loan is less than the replacement cost value of the improvements, go to Step 2.
2	Calculate 80% of the replacement cost value of the improvements.
2A	If the result of this calculation is equal to or less than the UPB of the loan, the UPB is the amount of coverage required.
2B	If the result of this calculation is greater than the UPB of the loan, this calculated figure is the amount of coverage required.

> **Note**: When calculating the required amount of property insurance coverage, the loan amount must be used at origination and the UPB must be used during servicing of the loan.

Examples:

Category	Property A	Property B	Property C
Replacement Cost Value	$90,000	$100,000	$100,000
UPB	$95,000	$90,000	$75,000
80% of the Replacement Cost Value	—	$80,000	$80,000
Required Coverage	$90,000	$90,000	$80,000
Calculation Method	Step 1A	Step 2A	Step 2B

See *Servicing Guide*, B-2-01, Property Insurance Applicable to All Property Types, for additional servicer responsibilities related to property insurance for second mortgages.

Deductible Requirements

The maximum allowable deductible for all required property insurance perils for one-to four-unit properties is 5% of the property insurance coverage amount.

When a property insurance policy includes multiple deductibles, such as a separate deductible that applies to windstorms, or a separate deductible that applies to a specific property element such as the roof, the total amount for such deductibles applicable to a single occurrence must be no greater than 5% of the property insurance coverage amount.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2021-11	December 15, 2021
Announcement SEL-2020-07	December 16, 2020

B7-3-03, Master Property Insurance Requirements for Project Developments (12/14/2022)

Introduction

This topic contains information on master property insurance requirements for project developments, including:

Overview

This topic covers requirements for master property insurance policies covering the common elements and residential structures of project developments.

The requirements applicable to condo projects in this topic also apply to two- to four-unit condos and detached condos, unless stated otherwise.

For the purposes of this topic and B7-3-04, Individual Property Insurance Requirements for a Unit in a Project Development, the following definitions apply:

- Common elements refers to insurable, non-residential elements of a project development. Examples include, but are not limited to, clubhouses, parking areas or structures, and recreational facilities.
- Residential structures refers to the insurable elements of a building that contains one or more residences.

Determining if a Master Property Insurance Policy is Required

The requirements for individual property insurance policies will vary based on the homeowners' association (HOA) or co-op corporation's legal documents and the master property insurance policy. The following table provides the requirements based on the project type.

Project Type	Requirement
PUD	Individual property insurance policies as described in B7-3-02, Property Insurance Requirements for One-to Four-Unit Properties are required for each property securing a loan that Fannie Mae purchases in a PUD project unless the project's legal documents provide for a master property insurance policy that covers both the common elements and residential structures. In that case, Fannie Mae will accept the master property insurance policy in satisfaction of its insurance requirements for the subject property. The borrower may still have to maintain an individual unit owner policy as described in *Coverage Requirements* in this topic. When units located within a PUD are covered by a master property insurance policy maintained by the HOA, the lender or servicer must verify that the insurance provides coverage for both the common elements and residential structures. When units located within a PUD are covered by individual property insurance policies maintained by their respective owner(s), the lender or servicer is not required to verify master property insurance coverage on PUD common elements.
Condo	Master property insurance policies are required for the common elements and residential structures for each loan that Fannie Mae purchases in a condo project unless the condo project's legal documents require individual property insurance policies for each unit. In that case, the individual property insurance policy must meet the requirements in B7-3-02, Property Insurance Requirements for One-to Four-Unit Properties. When a master property insurance policy is required, the lender or servicer must verify that the master property insurance provides coverage for both the common elements and residential structures. The borrower may still have to maintain an individual unit owner policy as described in *Coverage Requirements* in this topic.
Co-op	Master property insurance policies are required for the common elements and residential structures for each loan that Fannie Mae purchases in a co-op project unless the co-op project's legal documents require individual property insurance policies for each unit. In that case, the individual property insurance policy must meet the requirements in B7-3-02, Property Insurance Requirements for One-to Four-Unit Properties. When a master property insurance policy is required, the lender or servicer must verify that the master property insurance provides coverage for both the common elements and residential structures. The borrower may still have to maintain an individual unit owner policy as described in *Coverage Requirements* in this topic.

To the extent the master property insurance policy does not cover the interior of the unit or improvements to the unit, the borrower must maintain an individual unit owner property insurance policy (see B7-3-04, Individual Property Insurance Requirements for a Unit in a Project Development for additional requirements).

Coverage Requirements

When required, a master property insurance policy must be maintained with premiums paid as a common expense by the HOA or co-op corporation, as applicable. The policy must cover all insurable property elements. Common personal property and supplies should be covered, if applicable.

Master property insurance coverage policies covering project developments should be written on a "Special" coverage form or equivalent. At a minimum, the coverage must include the perils listed in the following table.

✓	**Required Perils**
	Fire
	Lightning
	Explosion
	Windstorm (including named storms designated by the U.S. National Weather Service or the National Oceanic and Atmospheric Administration by a name or number)
	Hail
	Smoke
	Aircraft
	Vehicles
	Riot or civil commotion
	Vandalism
	Sprinkler leakage
	Sinkhole collapse
	Volcanic eruption
	Falling objects
	Weight of snow, ice or sleet

✓	**Required Perils**
	Water damage

If a master property insurance policy excludes or limits coverage of any of the required perils, the HOA or co-op corporation must obtain an acceptable stand-alone property insurance policy which provides adequate coverage for the limited or excluded peril (see B7-3-05, Additional Insurance Requirements for additional information).

The policy must provide for claims to be settled on a replacement cost basis. Policies written on an actual cash value basis are not acceptable.

See *Named Insured for Property and Flood Insurance* in B7-3-08, Mortgagee Clause, Named Insured, and Notice of Cancellation Requirements for the named insured requirements.

Determining the Required Coverage Amount

Property insurance must be in an amount at least equal to 100% of the replacement cost value of the project improvements, including common elements and residential structures.

An insurance policy that includes any of the following coverage, either in the policy language or in a specific endorsement to the policy, is acceptable:

- Guaranteed Replacement Cost,
- Extended Replacement Cost, or
- Replacement Cost.

When the lender or servicer must verify the coverage amount is not less than the minimum required as described above, the verification source may be the property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination.

Master Property Insurance Policies with Coinsurance

Policies with coinsurance provisions can create additional risk for an HOA in the event of a loss if the amount of insurance coverage is less than 100% of the replacement cost value. Master property policies that provide coverage at 100% of the replacement cost value of the project improvements, including the individual units, alleviate the risk of a coinsurance penalty being applied in the event of a loss.

If the policy has a coinsurance clause, inclusion of an Agreed Amount Endorsement or selection of the Agreed Value Option (which waives the requirement for coinsurance) is considered acceptable evidence that the 100% replacement cost requirement has been met. If an Agreed Amount / Agreed Value provision is used, the Agreed Amount must be no less than the estimated replacement cost value.

If the policy includes a coinsurance clause, but the coinsurance provision is not waived, the policy is still eligible if evidence acceptable to the lender or servicer confirms that the amount of coverage is at least equal to 100% of the replacement cost value of the project improvements. This evidence (documentation) must be maintained by the lender or servicer.

Deductible Requirements

The following table describes the maximum allowable deductible for master property insurance policies covering project developments.

Deductible Type	Maximum Deductible
Per occurrence	The maximum allowable deductible for all required property insurance perils is 5% of the master property insurance coverage amount.
Per occurrence, multiple deductibles	When a master property insurance policy includes multiple deductibles, such as a separate deductible that applies to windstorms, or a separate deductible that applies to a specific property element such as the roof, the total amount for such deductibles applicable to a single occurrence must be no greater than 5% of the insurance coverage amount.
Per occurrence, per unit	Fannie Mae will allow a per unit master property insurance policy deductible when the sum of the applicable per unit deductibles is greater than 5% of the coverage amount and all of the following requirements are met. 1. The master property insurance policy has a per unit deductible for named perils specific to a geographic area where such coverage is common and customary; and 2. The borrower's individual property insurance policy includes a. coverage for the applicable peril(s); b. coverage for master property insurance policy deductible assessments levied on the unit owner by the HOA or co-op corporation for the applicable peril(s); and c. loss assessment coverage in an amount sufficient to cover assessments in excess of 5% of the master property insurance policy coverage amount, divided by the number of units.

> **Note:** A deductible buy-back insurance policy purchased by the HOA or co-op corporation may be used to meet Fannie Mae's master property insurance policy deductible requirements, provided the policy meets all other property insurance requirements in *Chapter B7-3, Property and Flood Insurance*, including insurer rating requirements.

Special Coverage Requirements for Project Developments

The following special coverage requirements apply to condo, co-op, and PUD master property insurance policies:

- Inflation Guard Coverage - The coverage is not required if it is not obtainable in the insurance market available to the association;
- Building Ordinance or Law Coverage - The coverage must include:

- Coverage A: loss to the undamaged portion of a building,
- Coverage B: demolition costs, and
- Coverage C: increased costs of construction.

Building Ordinance or Law Coverage may be included in the property coverage form or obtained as an endorsement to the property insurance policy. The coverage is not required if it is not obtainable in the insurance market available to the association; and

- Boiler and Machinery/Equipment Breakdown Coverage - This coverage is required if the project development has central heating or cooling. The coverage amount must equal the lesser of $2 million or the replacement cost value of the building(s) housing the boiler or machinery. This coverage may be included in the property coverage form, obtained as an endorsement to the master property insurance policy, or the HOA or co-op corporation may purchase a stand-alone boiler and machinery policy.

> **Note:** Boiler and Machinery/Equipment Breakdown Coverage may also be referred to as Steam Boiler Coverage or Mechanical Breakdown Coverage.

Special Coverage Requirements for Condo Projects

Master property insurance policies for condo projects must be endorsed with a Condominium Association Coverage Form or its equivalent. The endorsement must include the following provisions or comparable language:

- Recognition of an Insurance Trustee: If you name an insurance trustee, we will adjust losses with you, but we will pay the insurance trustee. If we pay the trustee, the payments will satisfy your claims against us.
- Waiver of Rights Recovery: We waive our rights to recover payment from any unit-owner of the condominium that is shown in the declarations.
- Unit-owner's Insurance: A unit-owner may have other insurance covering the same property as this insurance. This insurance is intended to be primary, and not to contribute with such other insurance.

Builder/Developer Property Insurance Policies

When a project is under development, it may be covered by the builder/developer's property insurance policy if the policy provides equivalent coverage to the requirements for project developments in this topic. When property coverage ceases per the terms of the builder/developer's policy, the HOA or co-op corporation must obtain a master property insurance policy in accordance with Fannie Mae's requirements.

Separate projects under development by the same developer will be considered affiliated during the period when control of the project has not yet transferred from the builder/developer to the individual owners or related HOA or co-op corporation. The affiliated status of the subject project ends when the property coverage ceases per the terms of the builder/developer's policy.

Policies Covering Multiple Projects

Except as described below, unaffiliated projects may not share a master property insurance policy. Each project must maintain its own policy that meets Fannie Mae requirements, as detailed throughout this topic.

If a property insurance policy that covers multiple unaffiliated projects provides a dedicated coverage amount for each individual covered project, the policy structure may provide equivalent coverage to Fannie Mae's coverage amount requirements. The coverage amount dedicated to the subject project must be sufficient to cover the full replacement cost value of the project improvements including the common elements and residential structures.

The lender or servicer must review the insurance policy and any other associated documents needed to adequately evaluate the insurance coverage. The HOA or co-op corporation must be protected in the same manner as if it maintained a master property insurance policy. The coverage of each insured project cannot be affected by any actions or omissions of unaffiliated projects covered by the same policy. Additionally, all other master property insurance requirements for project developments must be met.

The lender or servicer must document how they determined the applicable policy provides acceptable coverage as detailed above. A copy of the policy, along with the lender's or servicer's documentation must be maintained in the loan file.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022

B7-3-04, Individual Property Insurance Requirements for a Unit in a Project Development (12/14/2022)

Introduction

This topic contains information on property insurance requirements for units in project developments, including:

Overview

See *Overview* in B7-3-03, Master Property Insurance Requirements for Project Developments for additional information.

Determining if an Individual Property Insurance Policy on a Unit in a Project Development is Required

See *Determining if a Master Property Insurance Policy is Required* in B7-3-03, Master Property Insurance Requirements for Project Developments for determining when a master property insurance policy and/or an individual property insurance policy is required.

Coverage Requirements

See *Coverage Requirements* in B7-3-02, Property Insurance Requirements for One-to Four-Unit Properties, for the coverage requirements when an individual property insurance policy is required for a unit in a project development.

See B7-3-08, Mortgagee Clause, Named Insured, and Notice of Cancellation Requirements for requirements applicable to a loan secured by a unit in a project development.

Determining the Required Coverage Amount

To the extent the master property insurance policy does not cover the interior or improvements of a unit in a project development, the borrower must maintain an individual property insurance policy.

The lender or servicer must verify the coverage amount is sufficient to restore the unit to its condition prior to a loss event.

Coverage sufficiency should be based on the best information known or available to the lender or servicer, which may include information obtained from the borrower, in collaboration with the insurer, the HOA or co-op corporation legal documents, or other professional with appropriate resources to make such a determination.

Fannie Mae recommends that lenders and servicers encourage borrowers to closely collaborate with an insurance professional to determine their individual insurance needs.

Deductible Requirements

See *Deductible Requirements* in B7-3-02, Property Insurance Requirements for One-to Four-Unit Properties for deductible requirements when an individual property insurance policy is required for a unit in a project development.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2021-11	December 15, 2021

B7-3-05, Additional Insurance Requirements (12/14/2022)

Introduction

This topic contains information on additional insurance requirements, including:

- Additional Property Insurance Coverage
- Insurance Requirements for Renovation and Energy-Related Improvement Loans
- Optional Credit Life or Mortgage Loan Insurance

Additional Property Insurance Coverage

If a lender or servicer becomes aware of a subject property's exposure to perils that are not covered as required in *Coverage Requirements* in B7-3-02, Property Insurance Requirements for One-to Four-Unit Properties, or *Coverage Requirements* in B7-3-03, Master Property Insurance Requirements for Project Developments, such as toxic waste; it should contact Fannie Mae to determine whether additional coverage is necessary. Servicers should contact their Fannie Mae Servicing Representative (see *Servicing Guide*, F-4-02, List of Contacts) and lenders should contact their Fannie Mae Account Team (see E-1-02, List of Contacts).

Insurance Requirements for Renovation and Energy-Related Improvement Loans

When the loan provides funds to cover the costs of repairs, remodeling, renovations, or energy-related improvements, there must not be any coverage exclusions or limitations related to the renovation work during the time that work is being performed on the property.

Once repairs, renovation, or construction is complete, the lender or servicer must review the property insurance policy (and flood insurance policy when required) to ensure the appropriate coverage is in place based on the completed replacement cost value of the subject property.

Optional Credit Life or Mortgage Loan Insurance

Fannie Mae allows insurance policies that include optional coverage such as those outlined below. However, Fannie Mae does not pay costs arising from disputes with insurers in settling claims that relate only to this optional coverage.

Acceptable Types of Optional Credit Life or Mortgage Loan Insurance

Permissible coverage includes:

- single-premium credit insurance policies and debt cancellation agreements that are free in all respects to the borrower,
- single-premium mortgage insurance policies with a credit insurance feature where such credit insurance feature is free in all respects to the borrower, and
- credit insurance policies that require borrowers to pay a separately identified premium on a monthly or annual basis or debt cancellation agreements that require borrowers to pay a separately identified fee on a monthly basis.

These credit insurance policies or debt cancellation agreements must be disclosed to the borrower in clear and simple terms in advance of purchase of the applicable policy or agreement.

Notwithstanding the lender's or servicer's compliance with the above requirements, Fannie Mae purchases loans with debt cancellation agreements only with Fannie Mae's express written approval of the overall debt cancellation feature. This includes the debt cancellation agreement, and execution by the lender or servicer and Fannie Mae of a separately negotiated agreement.

The lender or servicer may act as a broker or agent in the sale of this type of credit insurance to the borrower.

The lender or servicer must reimburse Fannie Mae for attorney's fees or any costs that it incurs if Fannie Mae brings an action on a defaulted loan and the borrower defends against Fannie Mae's foreclosure or acts to enjoin Fannie Mae from liquidating the loan and one of the defenses or actions for injunction is based on:

- an obligation of the lender or servicer (including as the broker or agent that obtained the credit insurance for the borrower and/or as a party that has agreed to collect premiums and remit them to the credit insurer on the borrower's behalf),
- an obligation of the credit insurer, or
- the obligation of the mortgage insurer to maintain credit insurance and apply benefits thereof to the borrower's loan.

Unacceptable Types of Optional Credit Life or Mortgage Loan Insurance

Although certain property insurance policies that include optional coverage are allowed, Fannie Mae does not purchase loans in the following situations:

- The premium/fee for single-premium credit life insurance policies or debt cancellation agreements is paid directly by the borrower or paid indirectly by financing the premium/fee into the loan amount.
- The premium/fee for single-premium mortgage insurance policies with a credit insurance feature is paid directly by the borrower or paid indirectly by rolling the credit insurance single premium into the cost of the mortgage insurance (whether or not it is identified as including a credit insurance premium).

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2021-11	December 15, 2021
Announcement SEL-2020-07	December 16, 2020

B7-3-06, Flood Insurance Requirements for All Property Types (12/14/2022)

Introduction

This topic contains information on Fannie Mae’s flood insurance requirements, including:

- Determining if a Property Requires Flood Insurance
- Determining if Flood Insurance is Required on Specific Structures
- Community Eligibility
- Acceptable Flood Insurance Policies
- Requirements for One-to Four-Unit Properties
- Requirements for Project Developments
- Deductible Requirements
- Delivery Requirements

Determining if a Property Requires Flood Insurance

The lender and servicer must ensure that the subject property is adequately protected by flood insurance when required. Flood insurance coverage is required when a loan is secured by a property located in

- a Special Flood Hazard Area (SFHA), or
- a Coastal Barrier Resources System (CBRS) or Otherwise Protected Area (OPA).

The lender and servicer must determine whether the property is located in an SFHA, a CBRS, or an OPA by using the FEMA Standard Flood Hazard Determination form. All flood zones beginning with the letter "A" or "V" are considered SFHAs.

> **Note:** If the subject property is located within a CBRS or an OPA, flood insurance is required regardless of whether the property is located in an SFHA.

Flood insurance is not required on a principal or residential detached structure securing the loan if the lender or servicer obtains a letter from FEMA stating that its maps have been amended and the structure is no longer in an SFHA.

Determining if Flood Insurance is Required on Specific Structures

The following table describes how to evaluate a property to determine if flood insurance is required. For these requirements, the "principal structure" is the primary residential structure on the subject property.

If...	Then flood insurance is...
any part of the principal structure is located within an SFHA	required.
the principal structure is not located within an SFHA, but a residential detached structure affixed to the land that serves as part of the security for the loan is located within the SFHA	required for the residential detached structure.
the principal structure is not located within an SFHA, but a non-residential detached structure affixed to the land that serves as part of the security for the loan is located within the SFHA	not required on either structure.
the principal structure is not located within an SFHA, but a detached structure affixed to the land that does not serve as part of the security for the loan is located within the SFHA	not required on either structure.

Community Eligibility

If the lender or servicer determines that a principal or residential detached structure is located in an SFHA, but the community does not participate in the National Flood Insurance Program (NFIP), the loan is not eligible for purchase by Fannie Mae.

If the property is in a non-participating community and a CBRS or an OPA, it is only eligible for purchase by Fannie Mae if it is not located in an SFHA.

Loans secured by properties in the Emergency Program of the NFIP are eligible for purchase by Fannie Mae with coverage equivalent to the NFIP maximum that is available.

Acceptable Flood Insurance Policies

The flood insurance policy must be one of the following:

- a standard policy issued under the NFIP; or
- a policy issued by a private insurer, provided
  - the terms and amount of coverage are at least equal to that provided under an NFIP policy based on a review of the full policy issued by a private insurer, and
  - the insurer meets Fannie Mae's rating requirements as specified in *Property Insurer Rating Requirements* in B7-3-01, General Property Insurance Requirements for All Property Types.

A Policy Declaration page is acceptable evidence of flood insurance.

Requirements for One-to Four-Unit Properties

The minimum amount of flood insurance required for first mortgages must be equal to the lesser of

- 100% of the replacement cost value of the improvements,
- the maximum coverage amount available from NFIP, or
- the unpaid principal balance (UPB) of the loan (or loan amount at the time of origination).

See *Insurance Requirements for Renovation and Energy Improvement Loans* in B7-3-05, Additional Insurance Requirements for additional information.

See *Mortgagee Clause for Property and Flood Insurance* and *Named Insured for Property and Flood Insurance* in B7-3-08, Mortgagee Clause, Named Insured, and Notice of Cancellation Requirements for mortgagee clause and named insured requirements.

Requirements for Project Developments

When a loan is secured by a unit in an attached condo or co-op project and flood insurance is required as described in *Determining if a Property Requires Flood Insurance*, the lender and servicer must verify that the HOA or co-op corporation maintains a master flood insurance policy with premiums paid as a common expense, unless otherwise indicated in the table below.

The following table provides additional requirements based on the project type.

Project Type	Coverage Requirements
Condo	The lender and servicer must verify that the HOA maintains a Residential Condominium Building Associated Policy (RCBAP) or equivalent private flood insurance coverage for a condo building consisting of attached units located within an SFHA. The only building that must be verified is the subject unit's building. Fannie Mae does not require evidence of a master flood insurance policy, provided the unit owner maintains an individual flood dwelling policy that meets the coverage requirements of this Guide for the following loans or project types: • high LTV refinance loans, • units in a two- to four-unit project, and • detached condo properties. The master flood insurance policy maintained by the HOA must cover the subject unit's • entire building; and • all of the common elements and property, including machinery and equipment that are part of the building. The coverage amount for the building must be at least equal to the lesser of • 80% of the replacement cost value(1), or • the maximum coverage amount available from NFIP per unit(2). (1)If the master flood insurance policy meets the minimum coverage requirement of 80% of the replacement cost value, but the per unit coverage amount does not meet the requirement for loans secured by one- to four-unit properties, as described above, the unit owner must maintain a supplemental policy for the difference. (2)If the commercial space of an attached condo is over 25%, coverage provided by the General Property Form (or equivalent coverage) is insufficient. A private flood insurance policy, or a private flood insurance policy in conjunction with a General Property Form policy (or equivalent coverage) must be maintained by the HOA to equate to coverage requirements for projects eligible for an RCBAP. The contents coverage must equal the lesser of • 100% of the replacement cost value of all contents owned in common by the association members, or • the maximum coverage amount available from NFIP.

Project Type	Coverage Requirements
Co-op	The lender and servicer must verify that the co-op corporation maintains a General Property Form policy or equivalent private flood insurance coverage for a co-op building that is located within an SFHA. The master flood insurance policy maintained by the co-op corporation must cover the subject unit's • entire building, and • all of the common elements and property, including machinery and equipment that are part of the building. The coverage amount for the building must be at least equal to the lesser of • 100% of the replacement cost value, or • the maximum coverage available from NFIP.
PUD	The lender and servicer must verify that each attached or detached individual PUD unit maintains a Dwelling Form policy or equivalent private flood insurance policy on the subject property. See *Requirements for One- to Four-Unit Properties* above for the required amount of coverage.

See *Mortgagee Clause for Property and Flood Insurance* and *Named Insured for Property and Flood Insurance* in B7-3-08, Mortgagee Clause, Named Insured, and Notice of Cancellation Requirements for additional information.

Deductible Requirements

The following table describes the maximum deductible allowed by Fannie Mae for an NFIP or a private flood insurance policy.

Property Type	Deductible Requirement
One- to four-unit properties	The deductible must not exceed the maximum deductible amount currently offered by NFIP for one- to four-unit properties insured under an NFIP Dwelling Form.
Condo projects	The deductible must not exceed the maximum deductible amount currently offered by NFIP for condo projects insured by an RCBAP. This deductible requirement applies to all condo projects, regardless of the percentage of commercial space.

Property Type	Deductible Requirement
Co-op projects	The deductible must not exceed the maximum deductible amount currently offered by NFIP for co-op projects insured under an NFIP General Property Form.
PUDs	The deductible on individual attached or detached PUD units must not exceed the maximum deductible amount currently offered by NFIP for one- to four-unit properties insured under an NFIP Dwelling Form.

Delivery Requirements

The following table describes the special feature code requirements applicable to flood insurance.

Structure Location and Status of Flood Insurance Coverage	Special Feature Code
• Some part of a principal and/or residential detached structure is located within an SFHA, and • Flood insurance coverage is in place on the principal and/or residential detached structure.	SFC 170 Flood Insurance — Special Flood Hazard Area
• No part of a principal or residential detached structure is located within an SFHA, but • Flood insurance coverage is in place on the principal and/or residential detached structure.	SFC 175 Flood Insurance — Not a Special Flood Hazard Area
• No part of a principal or residential detached structure is located within an SFHA, and • No flood insurance coverage is in place on the principal or residential detached structure. **Note**: In addition to these criteria, this special feature code also applies if there is a non-residential detached structure affixed to the land for which any part is in an SFHA.	SFC 180 No Flood Insurance — Not a Special Flood Hazard Area

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2021-11	December 15, 2021
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-09	December 04, 2018

B7-3-07, Evidence of Property Insurance (12/14/2022)

Introduction

This topic contains information on evidence of property insurance, including:

- Overview
- Certificates of Property Insurance
- Master Property Insurance Policies for Project Developments
- Electronic Data Files

Overview

Lenders and servicers must follow the requirements below for documenting and retaining evidence of property insurance policies:

- The lender or servicer must verify the existence of a valid insurance policy that meets Fannie Mae's requirements. Information related to the policy should be passed on to the servicer, when applicable.
- The lender or servicer must retain acceptable evidence of insurance for each required policy, which includes sufficient information about the insurance policy, the subject property, and the borrower to ensure compliance with Fannie Mae's requirements for a first mortgage, unless the lender or servicer is covered by a mortgage impairment or mortgagee interest insurance policy or uses other evidence of insurance that Fannie Mae considers acceptable.
- The servicer of a second mortgage must retain a copy of the insurance policy, any endorsements to it, and evidence of premium payments.
- The servicer must ensure on an annual basis that any property insurance policy for a one- to four-unit property or a unit in a project development meets Fannie Mae's requirements.

> **Note:** If a lender is unable to determine whether the applicable insurance policy meets Fannie Mae's requirements, the associated loan is not eligible for purchase by Fannie Mae.

Certificates of Property Insurance

A lender or servicer may accept a certificate of property insurance in lieu of a complete property insurance policy if the certificate includes all of the information needed for the lender or servicer to determine whether the insurance meets Fannie Mae's requirements. The certificate of property insurance must be signed by the insurer.

Master Property Insurance Policies for Project Developments

When required, the lender or servicer must obtain a copy of the current master property insurance policy or a certificate of property insurance showing that the subject unit is covered under the master property insurance policy. See *Servicing Guide*, B-2-03, Master Property Insurance Requirements for Project Developments, for additional servicer responsibilities related to evidence of master property insurance policies for project developments.

Electronic Data Files

Electronic data files are acceptable in lieu of hard copy insurance policies if all the requirements in the following table are met.

✓	**Requirements for Electronic Data Files for Insurance Policies**
	The data file must include sufficient information about the insurance policy, the subject property, and the borrower to ensure that the servicer is able to comply with Fannie Mae's requirements for maintaining and monitoring property insurance, such as • reviewing the insurance policy terms, amount of coverage, and deductibles; • confirming that the premiums have been paid; and • processing loss drafts.
	The lender's or servicer's errors and omissions insurance policy must acknowledge electronic data transfers and fully protect the lender or servicer and Fannie Mae against losses incurred as the result of erroneous data files or transfers.
	The insurer must provide the lender or servicer with written assurance that the data file is equivalent to a printed policy, typically through a detailed agreement between the two parties.

✓	Requirements for Electronic Data Files for Insurance Policies
	The lender or servicer must have appropriate procedures in place to mitigate risks associated with not possessing an original hardcopy policy, which may include obtaining certifications from the insurer as to the accuracy of certain information that the servicer is required to verify.
	The lender or servicer must provide legible hard copies of the complete insurance policies and proof of premium payments if Fannie Mae requests them.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2021-11	December 15, 2021

B7-3-08, Mortgagee Clause, Named Insured, and Notice of Cancellation Requirements (12/14/2022)

Introduction

This topic contains information on the mortgagee clause, named insured, and notice of cancellation requirements.

- Mortgagee Clause for Property and Flood Insurance
- Named Insured for Property and Flood Insurance
- Notice of Cancellation for Property Insurance

Mortgagee Clause for Property and Flood Insurance

The following requirements apply to individual property and flood insurance policies maintained by the borrower and do not apply to master property and flood insurance policies for project developments.

Fannie Mae must not be named in the mortgagee clause unless the coverage or its interest would be impaired by Fannie Mae not being named. If Fannie Mae is named, the clause must read: "Fannie Mae, in care of (insert servicer's name and address here)." This ensures that all matters related to the applicable insurance policy are referred directly to the servicer and not to Fannie Mae.

When Fannie Mae is not named in the mortgagee clause, the lender's name, followed by the phrase "its successors and/or assigns," and mailing address must be shown as the mortgagee. If the lender is not the servicer, the servicer's name, followed by "its successors and/or assigns," and mailing address must be specified. In all cases, the insurer must be instructed to send all correspondence, policies, and bills to the servicer (or to both the first and second mortgage servicers).

If the mortgage is registered with MERS and is originated naming MERS as the original mortgagee of record, MERS must not be named as mortgagee or loss payee on any property insurance policy. The mortgagee clause must name the servicer (unless Fannie Mae must be named because the coverage or its interest would be impaired as mentioned above).

The following table provides additional requirements for mortgagee clauses.

Property Type	Mortgagee Clause Requirements
One- to four-unit property	The applicable insurance policy must include (or have attached) a "standard" or "union" mortgagee clause (without contribution) in the form customarily used in the area in which the property is located. A loss payable clause in lieu of a mortgagee clause is not acceptable.
Unit in a project development	If a unit owner or shareholder maintains an individual property insurance policy (as indicated by the project's legal documents) or if an individual property insurance policy is required in accordance with *Determining if a Master Property Insurance Policy is Required* in B7-3-03, Master Property Insurance Requirements for Project Developments for interior coverage, it must include the standard mortgagee clause as defined above. If an individual flood insurance policy is required in accordance with *Requirements for Project Developments* in B7-3-06, Flood Insurance Requirements for All Property Types, it must include the standard mortgagee clause as defined above. A mortgagee clause naming Fannie Mae, the lender, or the servicer is not required for a master property insurance policy, an NFIP RCBAP, or equivalent master flood insurance policy issued by a private insurer.

Named Insured for Property and Flood Insurance

The following table provides the requirements for the named insured on property and flood insurance policies.

Property Type	Requirement for Named Insured
One- to four- unit properties	The individual property or flood insurance policy must name all persons holding title to the subject property as named insured to ensure the borrower(s) has full rights to the policy and Fannie Mae's interest or ability to receive benefits is not impaired.
Individual units in a project development	
Condo projects	The master property or flood insurance policy must designate the HOA as the named insured. If the condo's legal documents permit it, the master property or flood insurance policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured.
PUD projects	The master property or flood insurance policy must designate the HOA as the named insured.
Co-op projects	The master property or flood insurance policy must designate the co-op corporation as the named insured.

Notice of Cancellation for Property Insurance

The following requirements apply to individual property insurance policies maintained by the borrower and do not apply to master property insurance policies for project developments.

The following table provides the requirements for notice of cancellation on property insurance policies.

Project Type	Requirement for Notice of Cancellation
One- to four-unit properties	The property insurance policy must provide for written notice to the named insured and mortgagee(s) before the insurer can cancel the policy.
Individual units in a project development	

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2021-11	December 15, 2021
Announcement SEL-2018-09	December 04, 2018

Chapter B7-4, Liability and Fidelity/Crime Insurance Requirements for Project Developments

Introduction

This chapter describes the requirements for liability and fidelity/crime insurance for project developments.

B7-4-01, General Liability Insurance Requirements for Project Developments (12/14/2022)

Introduction

This topic contains information on general liability insurance requirements, including:

- Determining if General Liability Insurance is Required
- Coverage Requirements
- Determining the Required Coverage Amount
- Named Insured

Determining if General Liability Insurance is Required

General liability insurance is required for all condo and co-op projects, with the following exceptions:

- projects that qualify for a waiver of project review as described in B4-2.1-02, Waiver of Project Review, or
- condo projects reviewed under the Limited Review method as described in B4-2.2-01, Limited Review Process.

Coverage Requirements

When required, the HOA or co-op corporation must maintain a general liability insurance policy for the entire project. The general liability insurance policy must include coverage for:

- commercial spaces that are owned by the HOA or co-op corporation, even if they are leased to others, and
- bodily injury and property damage that results from the operation, maintenance, or the use of the project's common elements, and any other areas that are under its supervision.

The general liability insurance policy must include a separation of insureds or severability of interests provision in its terms. If the policy does not include separation of insureds or severability of interests in its terms, Fannie Mae requires a specific endorsement to preclude the insurer's denial of a unit owner's claim because of negligent acts of the HOA or co-op corporation or of other unit owners.

Determining the Required Coverage Amount

The amount of coverage must be at least $1 million for bodily injury and property damage for any single occurrence.

Named Insured

The general liability insurance policy must designate the HOA or co-op corporation as the named insured with the premiums paid as a common expense by the HOA or co-op corporation.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2018-07	September 04, 2018
Announcement SEL-2018-06	August 07, 2018

B7-4-02, Fidelity/Crime Insurance Requirements for Project Developments (12/14/2022)

Introduction

This topic contains information on fidelity/crime insurance requirements, including:

- Determining if Fidelity/Crime Insurance is Required
- Coverage Requirements
- Determining the Required Coverage Amount
- Named Insured

Determining if Fidelity/Crime Insurance is Required

Fidelity/crime insurance is required for all condo and co-op projects, with the following exceptions:

- projects that qualify for a waiver of project review as described in B4-2.1-02, Waiver of Project Review,
- condo projects reviewed under the Limited Review method as described in B4-2.2-01, Limited Review Process,
- condo or co-op projects consisting of 20 units or less, or
- condo or co-op projects that would need fidelity/crime insurance coverage of $5,000 or less (based on the calculations described in *Determining the Required Coverage Amount*).

Coverage Requirements

When required, the HOA or co-op corporation must have fidelity/crime insurance coverage for the dishonest or fraudulent acts of anyone who either handles or is responsible for funds held or administered for the HOA or co-op corporation. Fidelity/crime insurance is required whether or not that individual receives compensation for services rendered. Accordingly, the HOA or co-op corporation fidelity/crime insurance policy must include coverage for the acts of any management agent.

A management agent that handles funds for the HOA or co-op corporation should additionally be covered by its own fidelity/crime insurance policy, however, a fidelity/crime insurance policy maintained by the management agent (with the management agent as the named insured) is not an acceptable alternative for a fidelity/crime insurance policy in the HOA or co-op corporation's name that provides coverage for the acts of all parties with access to their funds, including the management agent.

Determining the Required Coverage Amount

When fidelity/crime insurance is required, the lender or servicer must review the project legal documents or other source acceptable to the lender or servicer to verify whether the HOA or co-op corporation and any associated management company adhere to one or more of the financial controls listed below:

- Separate bank accounts are maintained for the working account and the reserve account, each with appropriate access controls, and the bank in which funds are deposited sends copies of the monthly bank statements directly to the HOA or co-op corporation.
- The management company maintains separate records and bank accounts for each HOA or co-op corporation that uses its services, and the management company does not have the authority to draw checks on, or transfer funds from, the reserve account of the HOA or co-op corporation.
- Two members of the Board of Directors must sign any checks written on the reserve account.

The following table describes how to determine the minimum required amount of fidelity/crime insurance.

If the HOA or co-op corporation	Then the fidelity/crime insurance coverage amount must equal at least…
adheres to one or more of the financial controls above	the sum of three months of assessments on all units in the project.
does not adhere to one or more of the financial controls above	the maximum funds that are in the custody of the HOA or co-op corporation, or its management agent, at any time.

> **Note:** In states that have statutory fidelity/crime insurance requirements, Fannie Mae accepts those requirements in place of its own.

Named Insured

The fidelity/crime insurance policy must designate the HOA or co-op corporation as the named insured with premiums paid as a common expense by the HOA or co-op corporation.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2021-11	December 15, 2021
Announcement SEL-2018-07	September 04, 2018
Announcement SEL-2018-06	August 07, 2018

Subpart B8, Closing: Legal Documents

Introduction

This subpart describes legal document requirements in connection with mortgage loans sold to Fannie Mae.

Chapter B8-1, General Information on Legal Documents

Introduction

This chapter provides general information on Fannie Mae’s requirements for legal documents.

B8-1-01, Publication of Legal Documents (06/28/2011)

Introduction

This topic contains information on settlement evidence, including:

- Publication of Legal Documents
- Legal Documents for Government Mortgages

Publication of Legal Documents

Fannie Mae publishes Legal Documents on its website. These legal documents include security instruments, notes, riders and addenda, and special-purpose documents that should be used in connection with regularly amortizing, conventional, residential mortgage loans sold to Fannie Mae. Many of these forms are published jointly by Fannie Mae and Freddie Mac and are referred to as Uniform Instruments.

Each legal document published on Fannie Mae's website is accompanied by a Summary or Instructions document, which provides:

- the latest revision date for the document,
- the document’s purpose and type of mortgage transactions for which it is used,

- instructions on how to print the electronic version of the document,
- specific changes that must be made to the document,
- additional changes that may be made to the document, and
- other pertinent information about special circumstances that may affect the user or completion of the document.

Legal Documents for Government Mortgages

A lender should use legal documents for regularly amortizing FHA-insured mortgages, VA-guaranteed mortgages, RD-guaranteed mortgages, and HUD-guaranteed mortgages that are acceptable to the government agency and are appropriate for the state in which the security property is located.

Although Fannie Mae does not publish documents for government mortgages, in some cases Fannie Mae allows (or requires) its legal documents to be used. If a lender chooses to use Fannie Mae's legal documents for conventional mortgages, and if those documents must be modified or amended to comply with applicable government agency requirements, the following requirements must be met:

- The documents must be enforceable under their terms.
- The documents must comply with all applicable state and local requirements for a recordable and enforceable document.
- The lender must make nonstandard document warranties that are similar to those Fannie Mae requires for other mortgages closed on documents other than Fannie Mae's standard documents. See A2-2-03, Document Warranties.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Chapter B8-2, Security Instruments

Introduction

This chapter provides information on security instruments.

B8-2-01, Security Instruments for Conventional Mortgages (02/06/2019)

Introduction

This topic contains general information on conventional first mortgage security instruments, including:

- Use of Security Instruments
- Standard First-Lien Mortgage Security Instruments
- Master Form and Short Form Documents

Use of Security Instruments

Lenders must use security instruments for conventional mortgages that are correct for the applicable jurisdiction, mortgage type, lien type, property type, and transaction type. Security instruments for regularly amortizing mortgages include the Fannie Mae/Freddie Mac Uniform Mortgages, Deeds of Trust, and Security Deeds.

In some cases, the uniform security instruments may have to be adapted to meet the lender's needs or local jurisdictional requirements. If, however, a security instrument is modified in any way, Fannie Mae will consider it to be a nonstandard document, which means the lender's delivery of the loan is subject to Fannie Mae's requirements for nonstandard documents. For more information on the warranties a lender makes when it sells Fannie Mae mortgages closed on nonstandard documents, see A2-2-03, Document Warranties.

Standard First-Lien Mortgage Security Instruments

The current versions of the Fannie Mae standard first mortgage security instruments are posted on Fannie Maes's Legal Documents website. The website also contains instructions for use of these documents, including any required changes and some changes that may be made at lender's option, called "authorized changes." Lenders must make sure that any changes they make, including changes authorized by Fannie Mae, comply with all applicable laws.

The standard uniform security instruments are used for almost all types of regularly amortizing mortgages. In some instances, the standard security instruments must be modified by a rider. For example, a rider is needed for an adjustable-rate mortgage as well as for a security property that is a one-unit dwelling that is used as a second home or an investment property, or that is a two- to four-unit property or a unit in a PUD or condo project. For more information about these riders, see B8-4-01, Riders and Addenda.

Master Form and Short Form Documents

Lenders may elect to deliver first-lien mortgage loans to Fannie Mae using a master form mortgage or deed of trust ("Master Form") and short form mortgage or deed of trust ("Short Form") in states with statutes that allow for the use of these forms. The uniform Master Form and Short Form documents may be used in lieu of the current version of the Fannie Mae/Freddie Mac uniform first mortgage security instruments.

Under applicable state law, lenders may record a Master Form in a given recording jurisdiction, and then may subsequently record a Short Form for any mortgage loan originated in that jurisdiction.

The Master Form consists of a title page, which contains the state-specific requirements for a master security instrument, and the current long form uniform security instrument for that state. The Short Form contains the loan-specific information (for example, borrower name, lender name, loan amount, description of property, etc.) and identifies the provisions of the Master Form that are being incorporated into the Short Form. Any applicable riders to the security instrument must be attached to the Short Form. The borrower must execute the Short Form document and any applicable riders. The lender must provide the borrower with a copy of the recorded Master Form as well as the signed Short Form and any applicable riders.

The documents are available for 27 states and are posted on Fannie Mae's Legal Documents website.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-01	February 06, 2019

B8-2-02, Special-Purpose Security Instruments (09/02/2020)

Introduction

This topic contains general information on special-purpose security instruments, including:

- General Information
- Consolidated New York Mortgages
- Puerto Rico Direct Mortgage Instruments
- Security Instruments for Manufactured Home Mortgages

General Information

Fannie Mae sometimes allows special-purpose alternative documents to be used in lieu of (or in addition to) the typical security instruments. These documents can be found on Fannie Mae's Legal Documents website. Authorized changes that must or may be made to those documents are set out in the instructions that accompany each document. These instruments must be supported by the appropriate mortgage riders, rider addenda, mortgage assignments, and, if applicable, other product-specific documentation (see B8-4, Riders and Addenda, and B8-6, Mortgage Assignments).

Consolidated New York Mortgages

The statutory provisions of New York permit refinance mortgages (and sometimes purchase money mortgages) to be documented by a consolidation, extension, and modification agreement (CEMA) that consolidates into one document the terms of prior notes and mortgages related to the security property and, if new funds are advanced, the terms of a new note and mortgage. In such instances, the consolidation must be documented on Fannie Mae's standard *Consolidation, Extension and Modification Agreement* (Form 3172), along with any accompanying exhibits Fannie Mae may specify. If new funds are advanced, Fannie Mae's standard security instrument must be used to document the new mortgage that is being consolidated with the prior mortgages.

Puerto Rico Direct Mortgage Instruments

The statutory provisions of Puerto Rico permit a mortgage transaction to be documented by a single instrument that combines the terms of a note and mortgage. This is referred to as a "direct" mortgage. Fannie Mae does not publish standard legal documents for direct mortgages; therefore, lenders must develop (or acquire) appropriate documentation for these mortgages consistent with the applicable Puerto Rico statutes. By delivering a direct mortgage to Fannie Mae, the lender must make the nonstandard document warranties. (See A2-2-02, Delivery Information and Delivery-Option Specific Representations and Warranties.)

Security Instruments for Manufactured Home Mortgages

Fannie Mae prefers lenders to use the standard Fannie Mae uniform instruments for manufactured home loans sold to it.

Loan documents are not acceptable if they:

- state that the home is personal property or contain other words to that effect;
- state that the parties do not intend to attach the home to a permanent foundation system on the land, or contain statements inconsistent with that intention;
- unless required by law, provide that rights of holders in due course are waived, or with other words provide that an assignee note holder may be held liable for claims the borrower may have against other parties; or
- include consumer finance paper (which combines the note and security instrument in a single document) or a retail installment sales contract.

The following list provides the requirements for the security instrument used for a manufactured home loan.

- The property description section of the security instrument must include a comprehensive description of the manufactured home and the land. The description must include the serial or VIN number (or the serial number or VIN for each unit if the home is multi-width), make, model, size, and any other information that may be required by applicable law to definitively identify the home. The serial number is located on the HUD Data Plate located on the interior of the home, usually near the electrical box. In addition, the serial number is generally cold stamped on the frame front cross member of each transportable section.

Some jurisdictions may not allow any information in the property description section of the security instrument other than what is customary for other real property transactions. If this is the case, then an addendum may be used, which must be attached to the security instrument and included in the loan file.

- The security instrument must state that the manufactured home is an improvement to the land and an immovable fixture, or must include similar language as may be required by applicable law to assure, to the greatest extent possible, that the manufactured home is treated as real property under applicable state law. If applicable law provides specific obligatory wording, such wording must be used.
- The borrower(s) and any lender with a personal property security interest in the manufactured home must sign an Affidavit of Affixture that acknowledges their intent for the manufactured home to be permanently part of the real property that secures the mortgage free of any personal property security interest. It must also contain any specific language that may be required by applicable law.

The Affidavit must be signed by both the lender and the borrower(s), preferably recorded, and must be retained in the loan file.

Failure to include the Affidavit of Affixture in the loan file may result in the loan being ineligible for delivery to Fannie Mae.

- If state law requires a Uniform Commercial Code (UCC) filing in order to perfect a security interest in a manufactured home, the lender must make such filing in any and all appropriate locations.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-05	September 02, 2020

B8-2-03, Signature Requirements for Security Instruments

(10/22/2013)

Introduction

This topic contains information on:

- Borrowers' Signatures on Security Instruments
- Signature Requirements: Powers of Attorney and Guardianship

Borrowers' Signatures on Security Instruments

The following person(s) must sign the security instrument:

- Each person who has an ownership interest in the security property, even if the person's income is not used in qualifying for the loan.
- The spouse or domestic partner of any person who has an interest in the property, if their signature is necessary under applicable state law to waive any property right they have by virtue of being the owner's spouse or domestic partner.

Signature Requirements: Powers of Attorney and Guardianship

The following persons may sign security instruments on a borrower's behalf:

- An attorney-in-fact may sign the security instrument, as long as the lender obtains a copy of the applicable power of attorney. In jurisdictions where a power of attorney used for a signature on a security instrument must be recorded with the security instrument, the lender must ensure that recordation has been effected. See B8-5-05, Requirements for Use of a Power of Attorney, for further requirements governing the use of a power of attorney.
- A court-appointed guardian may sign the security instrument if the borrower is not legally competent, provided that they have unlimited power over the ward's affairs, including the power to hold, convey, and give a lien against real property owned by the ward, to make payments from the ward's assets, and to permit inquiries concerning the ward's credit. The lender should obtain a copy of the documents making the appointment. If the guardian in some other capacity is a party to the loan or sale transaction—for example, the seller of the property—the lender should ascertain that there are no material conflicts of interest.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Chapter B8-3, Notes

Introduction

This chapter describes requirements for conventional first and second mortgages notes, special note provisions, and signature and endorsement requirements.

B8-3-01, Notes for Conventional Mortgages (09/02/2020)

Introduction

This topic contains information on notes for conventional loans, including:

- Use of Conventional First Mortgage Notes
- Adjustable-Rate Mortgage Notes

Use of Conventional First Mortgage Notes

Lenders should use the note that is correct for the applicable mortgage type, lien type, property type, and product type for regularly amortizing conventional mortgages that are closed on the Fannie Mae/Freddie Mac uniform security instruments.

Fannie Mae publishes state-specific fixed-rate notes for ten jurisdictions (although they are not available for all products). The multistate note can be used in most jurisdictions unless the security property is located in a jurisdiction for which Fannie Mae publishes a state-specific mortgage note.

The various notes that are used for fixed-rate mortgages may be found on Fannie Mae's Legal Documents website. Authorized changes that must or may be made to these documents are set out in the instructions that accompany each document.

Adjustable-Rate Mortgage Notes

Generally, notes for adjustable-rate mortgages apply to specific ARM plans. Fannie Mae does not publish state-specific notes for all ARM plans. If Fannie Mae does not publish state-specific documents for a particular ARM plan, the lender must use the multistate note for that particular ARM plan and amend it as necessary to satisfy the requirements of the jurisdiction in which the security property is located. Required amendments may be incorporated by reprinting the amended documents, adding addenda to the documents, or making the changes on the documents themselves. The various notes that are used for ARMs may be found on Fannie Mae's Legal Documents website. Authorized changes that must or may be made to these documents are set out in the instructions that accompany each document.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-05	September 02, 2020
Announcement SEL-2019-01	February 06, 2019

B8-3-02, Special Note Provisions and Language Requirements (06/03/2020)

Introduction

This topic contains information on special note provisions and language requirements, including:

- Late Charges for Conventional Mortgages
- Requirement for Unit Number
- Mandatory Arbitration

Late Charges for Conventional Mortgages

The note for a conventional first mortgage must include information about the late charge to be assessed for any payment that is not received by the 15th day after it becomes due. The amount of the late charge must meet the following requirements:

- The amount must be permissible under applicable law.
- The late charge must be a minimum of 0% and up to 5% of the principal and interest (P&I) payment.

Requirement for Unit Number

If the subject property is a condo or other property type that is identified by a unit number, the unit number must be included in the property address on the note.

Mandatory Arbitration

Mandatory arbitration is a loan provision or an agreement accompanying the loan that requires the borrower to submit to arbitration any disputes arising out of or relating in any way to the mortgage transaction. Mortgages that are subject to mandatory arbitration are ineligible for sale to, or securitization by, Fannie Mae unless the mandatory arbitration provision provides that, in the event of a transfer or sale of the mortgage or an interest in the mortgage to Fannie Mae, the mandatory arbitration clause immediately and automatically becomes null and void and cannot be reinstated.

The lender must provide the borrower with written notice of the waiver provision within 60 days of the transfer or sale of the mortgage to Fannie Mae. That notice must contain substantially the following language:

> Pursuant to your mortgage documents, Fannie Mae is hereby notifying you that an interest in your loan has been transferred or sold to Fannie Mae and therefore the mandatory arbitration clause of your loan, requiring that you submit to arbitration to resolve any dispute arising out of or relating in any way to your mortgage, is immediately null and void.

The lender and servicer shall maintain a copy of such notice in the mortgage file.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-03	June 03, 2020

B8-3-03, Signature Requirements for Notes (10/31/2017)

Introduction

This topic contains information on borrowers' signatures on notes, including:

- Borrowers' Signatures on Notes
- Signature Requirements: Powers of Attorney and Guardianship

Borrowers' Signatures on Notes

An individual whose credit is used in qualifying for the loan must sign the note.

- An individual whose credit was not used in qualifying for the loan, but who does have an ownership interest in the property must be named in and sign the security instrument, but is not required to sign the note.
- An individual who is a co-signer or guarantor and who does not have an ownership interest in the property must sign the note, but is not named in (or required to sign) the security instrument.
- When an inter vivos revocable trust is permitted by B2-2-05, Inter Vivos Revocable Trusts as a mortgagor, and no individual borrower has an ownership interest in the property (either on title or by operation of law), the trust must execute the note, but may do so without recourse for the exclusive purpose of subjecting its interest in the property to the lien of the mortgage. See B8-5-02, Inter Vivos Revocable Trust Mortgage Documentation and Signature Requirements for more information about the documentation requirements for mortgages granted by *inter vivos* revocable trusts, including appropriate forms of signature for the note.

A borrower's signature should not contradict the name typed below the signature line on the note. Slight variations are acceptable—a missing initial, the omission of a "Jr" or "Sr," or an over- or under-signing (such as a borrower signing as William Thomas Smith when the typed name is William T. Smith, or vice versa). Significant variations—such as William Smith signing as "Skip" Smith, signing with an "X," or signing under an "also known as" name—are not acceptable unless the lender obtains a name affidavit from the borrower stating that they commonly use the alternative signature.

Signature Requirements: Powers of Attorney and Guardianship

The following persons also may be eligible to sign the note on a borrower's behalf in accordance with the guidelines below.

- An attorney-in-fact may sign the note. See B8-5-05, Requirements for Use of a Power of Attorney, for further requirements governing the use of a power of attorney.
- A court-appointed guardian may sign the note if the borrower is not legally competent, provided that they have unlimited power over the ward's affairs, including the power to hold, convey, and give a lien against real property owned by the ward, to make payments from the ward's assets, and to permit inquiries concerning the ward's credit. The lender should obtain a copy of the documents making the appointment. If the guardian in some other capacity is a party to the loan or sale transaction—for example, the seller of the property—the lender should ascertain that there are no material conflicts of interest.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B8-3-04, Note Endorsement (10/02/2019)

Introduction

This topic contains information on note endorsement, including:

- Note Endorsement
- Using an Allonge for the Endorsement
- Signature Requirements for Endorsements

Note Endorsement

The originating lender must be the original payee on the note, even when MERS is named as nominee for the beneficiary in the security instrument. The note must be endorsed to each subsequent owner of the mortgage unless one or more of the owners endorsed the note in blank. The last endorsement on the note should be that of the mortgage seller. The mortgage seller must endorse the note in blank and without recourse.

For example:

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PAY TO THE ORDER OF WITHOUT RECOURSE LENDER’S NAME (Authorized Signature) NAME
OF AUTHORIZED SIGNER TITLE OF AUTHORIZED SIGNER
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Using an Allonge for the Endorsement

The endorsement must appear on the note. An allonge may be used for the endorsement as long as the following requirements are met:

- The form and content of the allonge used must comply with all applicable state, local, or federal law governing the use of allonges and result in an enforceable and proper endorsement to the note.
- The allonge must be permanently affixed to the related note and must clearly identify the note by referencing at least the name of the borrower(s), the date of the note, the amount of the note, and the address of the security property.
- The note must clearly reference the attached allonge.
- Fannie Mae’s status as a “holder in due course” must not be impaired.

Any subsequent endorsements should be, but are not required to be, placed on the allonge.

The lender must indemnify Fannie Mae (as described in A2-1-03, Indemnification for Losses) for any losses incurred by Fannie Mae as a result of the use of an allonge for the note endorsement(s).

Signature Requirements for Endorsements

The endorsement should be signed only by those persons specifically authorized to execute documents in the lender's behalf. Signatures must be original, except that Fannie Mae accepts a lender's facsimile endorsement of notes for those jurisdictions in which the lender has determined that such endorsements are valid and enforceable.

A lender that chooses to use facsimile signatures to endorse notes must warrant that the endorsement is valid and enforceable in the jurisdiction(s) in which the security properties are located and must retain in its corporate records the following specific documentation authorizing the use of facsimile signatures:

- legal opinions related to the legality and enforceability of facsimile signatures for each jurisdiction in which the lender uses them;
- a resolution from the lender's board of directors authorizing specific officers by name or title to use facsimile signatures, stating that facsimile signatures are a valid and binding act on the lender's part, and authorizing the lender's corporate secretary to certify the validity of the resolution, and the names or titles of the officers authorized to execute documents by using facsimile signatures, and the authenticity of specimen forms of facsimile signatures;
- the corporate secretary's certification of the authenticity and validity of the board of director's resolution;
- a notarized certification of facsimile signature, which includes both the facsimile and the original signatures of the signing officer(s) and each officer's certification that the facsimile is a true and correct copy of their original signature.

The mortgage seller may not delegate to an attorney-in-fact its authority to execute an endorsement. The endorsement may not be executed by a party using a power of attorney.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-08	October 02, 2019

Chapter B8-4, Riders and Addenda

Introduction

This chapter provides information on riders and addenda.

B8-4-01, Riders and Addenda (06/05/2018)

Introduction

This topic contains information on riders and addenda, including:

- General Information
- Uniform Riders and Fannie Mae-Specific Riders to Security Instruments

General Information

There are special conditions that require modification of a security instrument (usually by a rider) or a note (usually by an addendum). These conditions may relate to the type of borrower (*inter vivos* revocable trusts), the type of security property (units in project developments, multiple-dwelling units, and leasehold estates), the occupancy status of the property (second homes or investment properties), the amortization method used for the mortgage (adjustable-rate mortgages), or the type of mortgage product (HUD Section 184 mortgages that are combination construction/permanent mortgages, or HomeStyle Renovation mortgages).

Uniform Riders and Fannie Mae-Specific Riders to Security Instruments

There are uniform Fannie Mae/Freddie Mac riders to security instruments, as well as some Fannie Mae-specific riders. There are also some situations in which Fannie Mae requires a rider to security instruments, but Fannie Mae has not developed a specific form. In some cases, Fannie Mae may offer language that a lender may include in the rider, even though Fannie Mae did not develop a specific document.

The various riders that are used for regularly amortizing first mortgages may be found on Fannie Mae's Legal Documents website. Authorized changes that must or may be made to these documents are set out in the Summary Page that accompanies each document.

Security instruments must be amended by one or more uniform riders or Fannie Mae-specific riders, as applicable, including:

Uniform or Fannie Mae-Specific Rider	Purpose
The *Multistate PUD Rider* (Form 3150) or the *Multistate Condominium Rider* (Form 3140)	Required for a mortgage that is secured by a unit in a PUD or condo project. Fannie Mae also has developed special riders for Texas Section 50(a)(6) loans that are secured by units in condo or PUD projects. In some states, co-op share loan documents must incorporate a co-op rider. Fannie Mae has not developed a standard multistate form for that rider, so the lender should contact its Fannie Mae customer account team to determine Fannie Mae's documentation requirements for co-op share loan riders.
The *Multistate 1–4 Family Rider* (Form 3170)	Required for a mortgage secured by a one- to four-unit investment property or a two- to four-unit principal residence.
The *Multistate Second Home Rider* (Form 3890)	Required for a mortgage secured by a second home.
The applicable Multistate Adjustable Rate Rider (and, if applicable, an addendum to the rider)	Required for all adjustable-rate mortgages. There are a number of different versions of this rider, based on the applicable ARM plan or index. Fannie Mae also requires a special ARM rider for Texas Section 50(a)(6) loan adjustable-rate mortgages.
The model *Multistate Renovation Loan Rider to Security Instrument* (Form 3732) and the *Multistate Renovation Investor Rider to Security Instrument* (Form 3733)	May be appropriately modified and used for HomeStyle Renovation mortgages. For other special-purpose documents for these HomeStyle products, see B8-5-03, HomeStyle Renovation Mortgage Documentation Requirements.
Revocable Trust Rider	May be used to amend security instruments for mortgages with *inter vivos* trust borrowers. Fannie Mae has developed a sample rider for mortgages that are made to *inter vivos trust borrowers and are secured by California properties. See B8-5-02, Inter Vivos Revocable Trust Mortgage Documentation and Signature Requirements, for more information about the use of this rider and similar riders.*

Uniform or Fannie Mae-Specific Rider	Purpose
A rider that includes a cross-default provision	Must be used to amend security instruments for mortgages secured by leasehold estates so that a default on the lease is a default on the mortgage. Fannie Mae does not publish a standard rider that includes this provision.
A construction loan rider	Must be used to amend security instruments for HUD Section 184 mortgages that are combination construction/permanent mortgages. Fannie Mae does not publish a standard construction loan rider for government mortgages.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-05	June 05, 2018

Chapter B8-5, Special-Purpose Legal Documents

Introduction

This chapter provides information on special-purpose legal documents and related requirements.

B8-5-01, General Information on Special-Purpose Legal Documents (05/01/2019)

Introduction

This topic contains information on special-purpose legal documents.

- General Information

General Information

Fannie Mae has specialized mortgage loan documentation that a borrower must execute to ensure that any required additional responsibilities, obligations, or rights of the borrower, the lender, or a third party are set out in legal documents that are separate and apart from the security instruments, notes, and riders that are typically used for mortgages delivered to Fannie Mae. These specialized legal documents are required for:

- mortgages to *inter vivos* revocable trusts,
- co-op share loans,
- Texas Section 50(a)(6) loans,
- HomeStyle Renovation mortgages,
- second mortgages that are part of a Community Seconds transaction, and
- loans secured by community land trust properties.

Information about the requirements for each of these specialized mortgage documents can be found in the remaining topics in this chapter, and in B5-4.1-03, Texas Section 50(a)(6) Loan Underwriting, Collateral, and Closing Considerations. See Fannie Mae's Legal Documents website for the specialized legal documents.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-04	May 01, 2019

B8-5-02, Inter Vivos Revocable Trust Mortgage Documentation and

Signature Requirements (10/31/2017)

Introduction

This topic contains information on the mortgage documentation and signature requirements for revocable trusts, including:

- Execution and Signature Requirements
- Signature Requirements When the Borrower is Individual and Inter Vivos Revocable Trust is Mortgagor
- Trustee Exclusion from Personal Liability
- Defining the Responsible Borrower in an Inter Vivos Revocable Trust
- Requirements for Revocable Trust Riders
- Requirements for Amended Security Instrument
- Requirements for Standard Security Instrument and No Rider
- Indemnification

Execution and Signature Requirements

The note must be executed in accordance with E-2-04, Signature Requirements for Mortgages to Inter Vivos Revocable Trusts. The trustee(s) of the *inter vivos* revocable trust also must execute the security instrument and any applicable rider.

Each individual establishing the trust whose credit is used to qualify for the mortgage must acknowledge all of the terms and covenants in the security instrument and any necessary rider, and must agree to be bound thereby, by placing their signature after a statement of acknowledgment on such documents.

Any other party that Fannie Mae requires to sign either the mortgage note or the security instrument also must execute the applicable document(s).

E-2-04, Signature Requirements for Mortgages to Inter Vivos Revocable Trusts, includes the form of signature for the trustee(s) and the statement of acknowledgment for each individual establishing the trust whose credit is used to qualify for the mortgage.

Signature Requirements When the Borrower is Individual and Inter Vivos Revocable Trust is Mortgagor

When one or more inter vivos revocable trusts eligible under B2-2-05, Inter Vivos Revocable Trusts hold title to the mortgaged property (alone or with another eligible *inter vivos* revocable trust), only an individual who is both grantor and primary beneficiary of one of the trusts may be a borrower and must sign the note in their individual capacity. In addition, each *inter vivos* revocable trust, acting through its trustee(s), is required to sign the note in connection with its grant of the mortgage. The *inter vivos* revocable trust may sign the note without recourse so that its liability for repayment of the note is limited to its interest in the mortgaged property. Such non-recourse status does not affect or otherwise limit the personal liability of the individual establishing the *inter vivos* revocable trust under the note, and is in addition to the limitations on personal liability for certain trustees of *inter vivos* revocable trusts in the *Selling Guide*.

When an individual borrower has a direct ownership interest in the property, no other person (including a trust) is required to sign the note (except other borrowers).

Trustee Exclusion from Personal Liability

Certain trustees may request exclusion from personal liability under the mortgage instruments. Lenders may agree to such requests, subject to the following conditions:

- Institutional trustees and individual trustees (other than individuals serving as trustees who both established the trust and whose credit is used to qualify for the mortgage) may be excluded from personal liability under the security instrument.
- Institutional trustees and individual trustees (other than individuals serving as trustees whose credit is used to qualify for the mortgage, including individuals who established the trust) may be excluded from personal liability under the mortgage note.

Lenders that agree to modify the mortgage instruments to include an exclusion from personal liability are responsible for ensuring that the modifying language:

- pertains only to the relevant trustee,
- does not impair the note holder's power to foreclose, and
- does not in any way release from liability any individual trustee who is not identified above as being permitted to be released from liability.

Defining the Responsible Borrower in an Inter Vivos Revocable Trust

Exhibit E-2-03, Revocable Trust Rider (Sample Language), includes sample language for a revocable trust rider. This rider (or a similar one appropriately modified to reflect the requirements of specific states) avoids ambiguities for mortgages made to *inter vivos* revocable trusts by clarifying who is considered to be "the borrower" with respect to any given covenant in the security instrument.

Instead of using a revocable trust rider, the lender may either:

- amend the security instrument to include appropriate definitions and language similar in substance to Fannie Mae's sample rider, or
- use the standard security instrument without such an amendment or the rider.

Requirements for Revocable Trust Riders

If the lender chooses to require a revocable trust rider as additional mortgage documentation, the rider must be:

- executed by the trustee(s) of the *inter vivos* revocable trust and by any other party that Fannie Mae requires to sign the security instrument, and

- acknowledged by each individual establishing the trust whose credit is used to qualify for the mortgage.

If the mortgage is secured by a California property, the lender should use Fannie Mae's sample rider. If the mortgage is secured by property located in another state, the lender should use a rider that has been appropriately modified to reflect the requirements of that state (unless the lender determines that use of Fannie Mae's sample Revocable Trust Rider is appropriate for the specific state).

Should foreclosure proceedings have to be initiated for a mortgage secured by a property located in a state other than California, the lender must indemnify and hold Fannie Mae harmless against any losses incurred by Fannie Mae that relate either

- to the modifications the lender made to the Fannie Mae sample rider (or to the inappropriate use of the Fannie Mae sample rider), or
- to any ambiguity in the application of the covenants in the security instrument.

Alternatively, Fannie Mae may require the lender to repurchase the mortgage or the acquired property.

Requirements for Amended Security Instrument

If the lender chooses to amend the security instrument instead of using a revocable trust rider, it should follow Fannie Mae's instructions regarding parties who must sign the security instrument, including having only the individuals establishing the trust whose credit is used to qualify for the mortgage sign a statement of acknowledgment of the security instrument.

The lender must indemnify and hold Fannie Mae harmless against any losses incurred by Fannie Mae that relate either to the lender's amendment or to any ambiguity in the application of the covenants in the security instrument should foreclosure proceedings later have to be initiated to acquire the property. Alternatively, Fannie Mae may require the lender to repurchase the mortgage or the acquired property.

Requirements for Standard Security Instrument and No Rider

If the lender chooses not to amend the security instrument and not to use the revocable trust rider, it must agree to indemnify and hold Fannie Mae harmless against any losses incurred by Fannie Mae that relate to any ambiguity in the application of the covenants in the security instrument should foreclosure proceedings later have to be initiated to acquire the property. Alternatively, Fannie Mae may require the lender to repurchase the mortgage or the acquired property.

Indemnification

The lender's obligation to indemnify Fannie Mae as noted above is further described in A2-1-03, Indemnification for Losses.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B8-5-03, HomeStyle Renovation Mortgage Documentation Requirements (06/05/2018)

Introduction

This topic contains information on HomeStyle mortgage documentation requirements.

HomeStyle Mortgage Documentation Requirements

This section describes Fannie Mae's requirements for security instruments, notes, riders, and addenda for HomeStyle Renovation mortgages. In addition, Fannie Mae has developed other model documents for use in connection with HomeStyle mortgages. Because these documents are model documents, they may need to be amended for certain types of lenders or particular types of transactions.

HomeStyle Mortgage

The mortgage or an appropriate rider to the security instrument ("renovation loan rider to security instrument" or "security instrument rider") must

- grant the lender a security interest in any personal property (including building materials) located in, or on, or used, or intended to be used, in connection with the work, and
- provide that a borrower default under the renovation loan agreement must constitute a default under the security instrument and the note, and
- grant the lender an assignment of rents as additional security for the loan and the right to appointment of a receiver of rents if the property is held for rental purposes.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-05	June 05, 2018

B8-5-04, Sample Legal Documents (01/27/2011)

Introduction

This topic provides documentation requirements for the following:

- Subsidized Second Mortgages in Community Seconds Transactions
- Mortgages Secured by Property Located on Community Land Trusts

Subsidized Second Mortgages in Community Seconds Transactions

Fannie Mae has not developed legal documents for the second mortgage component of a Community Seconds transaction; rather, the subsidized second mortgage should be closed on documents developed or acquired by the subsidy provider. Second mortgage loans delivered to Fannie Mae must meet Fannie Mae requirements or have received prior approval on a negotiated basis.

A lender's review of the legal documents should concentrate on determining that the security instrument for the subsidized second mortgage—and any other covenants or restrictions on the borrower's ability to sell the property or to use the land that the subsidy provider has recorded, or may later record against the property—are clearly subordinate to the first mortgage lien.

The legal documents also must set forth any and all conditions that constitute a default under the terms of the subsidized second mortgage.

Conditions that Fannie Mae considers acceptable include the borrower's:

- failure to make scheduled payments due on the mortgage;
- failure to occupy the property as a principal residence;
- misrepresentation of any condition required for obtaining the mortgage (such as whether the borrower satisfies any applicable income limitations);
- payoff of the first mortgage;
- refinancing of the first mortgage to cash out their equity in the property;
- selling or transferring the property to a party that is ineligible to receive the subsidy (although property

transfers that are exempt from enforcement of due-on-sale provisions under federal law must be allowed even if the party acquiring the property is not eligible for the subsidy, subject to the party's assumption of the borrower's obligations); and

- voluntary termination of their employment (for any reason other than disability), if their employer is the subsidy provider.

If other default provisions are included in the legal documents for the first or second mortgage, the borrower and the subsidy provider must execute a rider to nullify or amend those provisions.

See Section B5-5.1, Community Seconds, for more information.

Mortgages Secured by Property Located on Community Land Trusts

Mortgages secured by properties located on a community land trust are subject to a ground lease, which may include provisions that require the continued use of the property for low- and moderate-income families, and may limit the maximum sales price of the property.

Fannie Mae has developed a standard ground lease rider for community land trusts when the ground lease developed by the lessor is based on the model developed by the Grounded Solutions Network 2011 CLT Network Model Ground Lease or the Institute for Community Economics (ICE) Model Ground Lease. In these instances, the lessor and the borrower must execute a Community Land Trust Ground Lease Rider (Form 2100) that was developed for use with the Grounded Solutions Network 2011 CLT Network Model Ground Lease or the ICE Model Ground Lease.

The purpose of the rider is to ensure that the ground lease conforms to Fannie Mae's guidelines for community land trust mortgage loans without the delay that would result from the lender's obtaining Fannie Mae's approval of each ground lease. Fannie Mae's approval is required, however, if the rider is modified or is not executed. In addition, if the lender determines that the ground lease does not conform to the Grounded Solutions Network 2011 CLT Network Model Ground Lease or the ICE Model Ground Lease, Fannie Mae's approval of the ground lease is required prior to delivery of the mortgage loan(s). See B5-5.3-02, Shared Equity Transactions: General Requirements , for more information.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

B8-5-05, Requirements for Use of a Power of Attorney (10/05/2022)

Introduction

This topic contains information on requirements for use of a power of attorney, including:

- Overview

Overview

A power of attorney (POA) is a legal document giving one person (described below as the “agent”) the power to legally bind another person. Loans with documentation executed by an agent on behalf of the borrower under a POA are eligible for delivery to Fannie Mae if all requirements referenced in this Guide are met.

When title to mortgaged property is held by a trustee under an *inter vivos* revocable trust, loan documentation may not be executed using a POA granted by such trustee unless,

- the related trust instrument expressly authorizes the trustee to use a POA to delegate powers to an agent, or
- the agent under the POA is the borrower creating such *inter vivos* revocable trust.

General Exception to Power of Attorney Requirements

If a lender determines that it is required by applicable law to accept a POA presented by a borrower, none of the following requirements for, or limitations on, the use of a POA apply. In such cases, the lender must include a written statement in the loan file that explains that determination. Such written statement must be provided to the document custodian with the POA.

Eligibility Requirements for Using a Power of Attorney

Underwriting and Documentation Requirements	
Eligible Transactions	• Purchase • Limited cash-out refinance
Documentation Requirements	An agent under a POA may sign the note and/or security instrument on behalf of a borrower (as defined in the Glossary) if all of the following requirements are met: • The lender obtains a copy of the POA. • The name(s) on the POA match the name(s) of the person on the relevant loan document. • The POA is dated such that it was valid at the time the relevant loan document was executed. • The POA is notarized. • The POA must reference the address of the subject property. Note**:** See B1-1-01, Contents of the Application Package, for additional information.

<table>
<tr><th colspan="3">Underwriting and Documentation Requirements</th></tr>
<tr><td>Additional Requirements</td><td colspan="2">• In jurisdictions where a POA used for a signature on a security instrument must be recorded with the security instrument, the lender must ensure that recordation has been effected.
• If applicable law requires an original POA for enforcement or foreclosure purposes, an original must be forwarded to the document custodian.
• If there is more than one borrower, each may execute the note and/or security instrument using a POA that complies with this section.</td></tr>
<tr><td rowspan="10">Ineligible Agents</td><td colspan="2">Unless a person described below is a relative* of the borrower, none may serve as an agent except in accordance with a listed permitted exception.</td></tr>
<tr><td>Agent</td><td>Permitted Exceptions</td></tr>
<tr><td>Affiliate of lender</td><td rowspan="5">Transaction must meet the Additional Conditions below</td></tr>
<tr><td>Loan originator</td></tr>
<tr><td>Affiliate of the loan originator</td></tr>
<tr><td>Employee of the title insurance company</td></tr>
<tr><td>Affiliate of the title insurance company or its employee (including, but not limited to, the title agency closing the loan)</td></tr>
<tr><td>Lender (or employee of lender)</td><td rowspan="3">None</td></tr>
<tr><td>Property seller, or any person related to the property seller, including a relative or affiliate</td></tr>
<tr><td>Any real estate agent with a financial interest in the transaction (or any person affiliated with such real estate agent)</td></tr>
</table>

*A borrower’s relative includes any person defined as a relative in this Guide, or a person who is an individual engaged to marry the borrower, or is in a legally recognized mutual relationship with the borrower (however denominated under applicable local law).

Additional Conditions

The following are the additional conditions that must be met to qualify for a permitted exception in the table above.

- The POA expressly states an intention to secure a loan not to exceed a stated amount from a named lender on a specific property.
- The POA expressly authorizes the agent to execute the required loan documents on behalf of the borrower.
- In a recorded, interactive session conducted via the internet, and to the satisfaction of the agent, the borrower must
  - confirm their identity;
  - after reviewing the required loan documents, reaffirm their agreement to the terms and conditions of the note and security instrument evidencing the transaction; and
  - reaffirm their agreement to the execution of the loan documents by the agent.
- At Fannie Mae's request the lender must produce a recording and other documentary media memorializing the entirety of the interactive session. Such request may be at any time during the term of the related loan. The lender must comply within a commercially reasonable time following such request and without additional expense to Fannie Mae.
- If the agent is an employee of the title insurer or is an employee of the policy-issuing agent of the title insurer, then unless unavailable under applicable law, such title insurer must issue a closing protection letter (or similar contractual protection) for the transaction for the policy-issuing agent.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcement	Issue Date
Announcement SEL-2022-09	October 05, 2022
Announcement SEL-2021-02	March 03, 2021
Announcement SEL-2019-05	June 05, 2019

Chapter B8-6, Mortgage Assignments

Introduction

This chapter describes Fannie Mae requirements related to mortgage assignments.

B8-6-01, Authorized Use of Intervening and Blanket Assignments (05/04/2022)

Introduction

This topic contains information on the authorized use of intervening and blanket assignments, including:

- Intervening Assignments
- Blanket Assignments
- Special Provision for Puerto Rico

Intervening Assignments

If the originating lender is not servicing the loan at the time of the sale to Fannie Mae, then unless the loan has been registered with MERS or the loan is secured by a property in Puerto Rico, the seller of the loan must cause to be recorded one or more intervening assignments of mortgage to ensure there are effective mortgage assignment(s) from the originating lender to the servicer. Copies of all such assignments must be retained in the loan file.

Blanket Assignments

Lenders may use blanket assignments for any intervening assignments that take place before the mortgage is sold to Fannie Mae, as long as this type of assignment is acceptable to the applicable recording jurisdiction (blanket assignments are assignments that cover more than one mortgage). Each blanket assignment must relate to a single recording jurisdiction.

The lender may be required to indemnify Fannie Mae (as described in A2-1-03, Indemnification for Losses), for any losses incurred by Fannie Mae due to the lender's failure to obtain, record (if applicable), and retain the necessary intervening assignments. Alternatively, Fannie Mae may require the lender to repurchase the mortgage or the security property.

Special Provision for Puerto Rico

Assignments of mortgages generally are not recordable in Puerto Rico. Therefore, no intervening assignments need to be prepared, recorded, or retained in the individual mortgage loan file.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-04	May 04, 2022
Announcement SEL-2019-09	December 04, 2019

Chapter B8-7, Mortgage Electronic Registration System (MERS)

Introduction

This chapter provides information related to mortgage loans registered with MERS.

B8-7-01, Mortgage Electronic Registration Systems (MERS), Inc. (05/04/2022)

Introduction

MERS is an electronic system that assists in the tracking of loans, servicing rights, and security interests. To initiate the electronic tracking, the seller/servicer assigns a special MERS Mortgage Identification Number (MIN) to the loan and registers it in MERS. This topic contains information about MERS, including:

- Naming MERS as the Nominee for the Beneficiary in the Security Instrument
- Requirements for the Use of MERS in Specified Geographic Areas

Naming MERS as the Nominee for the Beneficiary in the Security Instrument

A seller/servicer that wants to register a newly originated loan (but not a co-op share loan) with MERS may prefer to designate MERS as the nominee for the beneficiary in the security instrument. Doing so, eliminates the need for a subsequent assignment of the security instrument should the seller/servicer sell (or transfer servicing of) the loan to another seller/servicer that is a member of MERS. In such cases, the applicable security instrument must be modified to:

- show MERS as the nominee for the seller/servicer,
- define and name the originating seller/servicer, and
- obtain the borrower's acknowledgment of MERS' role in the mortgage transaction.

If the seller/servicer encounters a situation where Fannie Mae is the owner of record for a loan because the original assignment of the loan to Fannie Mae was recorded in the public records, the seller/servicer must correct the error before it completes the MERS registration by:

- preparing an assignment of the loan from Fannie Mae to MERS,
- sending the assignment to Fannie Mae for execution, and
- recording the assignment in the public records.

Changes that must be made to create a standard MERS security instrument for each jurisdiction may be found in the Instructions document for each state-specific security instrument (see Fannie Mae's Legal Documents website), with the exception of loans secured by property located in certain geographic areas, as described below.

The seller/servicer is responsible for the accurate and timely preparation and recordation of the security instrument and any MERS-related documents required to be used in specific geographic areas. Sellers/servicers must also take all reasonable steps to ensure that information pertaining to MERS is updated and accurate at all times.

Even when MERS is named as the nominee for the beneficiary in the security instrument, it has no beneficial interest in the mortgage. All actions that MERS takes with respect to a loan are based on the instructions initiated by the originating seller, Fannie Mae, or the servicer. The originating seller remains responsible for all of its Contractual Obligations and any liability that it or Fannie Mae incurs as a result of the MERS registration, any MERS transaction, or the failure of MERS to perform any obligation with respect to a MERS-registered loan. In addition, the seller/servicer is solely responsible for any failure to comply with the provisions of its MERS Member Agreement, Rules, and Procedures.

Requirements for the Use of MERS in Specified Geographic Areas

MERS Rider

In the states listed below, sellers/servicers must use the *Mortgage Electronic Registration Systems, Inc. Rider (MERS Rider)* (Form 3158) when a newly originated loan will be registered with MERS. Sellers/servicers must also follow the Instructions to the MERS Rider and the applicable security instruments to make changes to the standard security instruments for the following states:

- Montana,
- Oregon, and
- Washington.

As the MERS Rider must be used in these specified states, post-closing assignments to MERS are prohibited.

MERS Assignment Form - Maine

In the state of Maine, sellers/servicers must use the MERS Mortgage Assignment (Form 3749) to assign loans to MERS at origination or post-closing, as applicable. Loans in which the Maine security instrument has been modified to name MERS as the original mortgagee of record, solely as nominee for the seller/servicer, are ineligible for delivery to Fannie Mae.

MERS Registration

If a seller/servicer registers a loan with MERS before delivering it to Fannie Mae, the seller/servicer must ensure that the MIN is registered in MERS and names itself as the investor. Additionally, the seller/servicer must include the MIN in the delivery data. After Fannie Mae purchases or securitizes the mortgage, Fannie Mae notifies MERS to update its records to reflect Fannie Mae's ownership interest in the loan.

> **Note**: For loans registered in MERS iRegistration where MERS is not named as the nominee for the beneficiary in the security instrument, the MERS MIN should not be reported on the loan schedules.

If a seller/servicer registers a mortgage with MERS after Fannie Mae has purchased or securitized the loan, the seller/servicer must name Fannie Mae as the investor during registration and notify MERS of Fannie Mae's ownership interest in the loan.

Use of the MIN

For each MERS-registered loan delivered to a document custodian, the seller/servicer must indicate the MIN on the security instrument and related documents. Because the status of a MERS-registered mortgage can change, the seller/servicer is not required to include the MIN on the note. Additionally, the seller/servicer is still responsible for making sure that the document custodian has sufficient information to determine whether a loan that is included in a subsequent transfer of servicing is registered with MERS at the time of the transfer. The seller/servicer must have adequate controls in its processes to enable it to readily identify MERS-registered mortgages.

The seller/servicer can choose from the following options:

- place the MIN on the note when the loan is registered with MERS and, if the MERS registration is subsequently terminated for any reason, notify the document custodian to delete the MIN from the note;

- wait to advise the custodian of the status of the MERS registration for a loan until a change in status actually occurs; or
- notify the custodian about the status of the MERS registration for a loan at the time of a servicing transfer by providing the custodian with a listing of all MERS-registered loans that are included in the transfer and a certification that any and all other loans included in the transfer are not currently registered with MERS. (The listing may be prepared by the seller/servicer or, with the seller/servicer's authorization, by MERS.) If there are more MERS-registered loans included in the transfer than there are unregistered loans, the listing may instead identify the unregistered loans—and, in that case, the certification should state that any and all other loans included in the transfer are currently registered with MERS.

Mortgage Assignment to MERS

If the originating seller/servicer is the beneficiary for a loan that it registers with MERS, they must prepare an assignment of the mortgage to MERS. Refer to the section above, entitled *Requirements for the Use of MERS in Specified Geographic Areas*, for additional information about, and restrictions on, assignments of loans to MERS.

By delivering a MERS-registered loan to Fannie Mae, the seller/servicer:

- warrants that MERS is the mortgagee of record (either by being named as an assignee in a recorded assignment of the security instrument or as nominee for the beneficiary in the security instrument); and
- warrants that the MIN is valid and properly registered in MERS naming the seller/servicer as the investor.

Sellers/servicers are not required to include a copy of the assignment of the loan to MERS in the delivery package they submit to the applicable document custodian.

Termination of MERS

If the seller/servicer decides to discontinue the use of MERS, they must request from MERS that the loan be "deactivated" in MERS. MERS will notify Fannie Mae about the deactivation of any loan in which it has an interest.

If the seller/servicer's membership in MERS is terminated, the seller/servicer must promptly notify Fannie Mae's MERS Program Office (see E-1-02, List of Contacts).

In the event that either its membership in MERS or the MERS registration for an active loan is terminated for any reason while Fannie Mae has an ownership interest in the loan, the seller/servicer must perform the functions outlined in the following table for each MERS-registered loan that it is servicing for Fannie Mae.

✓	**The seller/servicer must...**
	Prepare an assignment of the loan from MERS to itself.

✓	The seller/servicer must...
	Have the assignment executed.
	Record the executed assignment in the public land records.
	Provide the impacted Fannie Mae loan numbers to Fannie Mae’s MERS Program Office.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-04	May 04, 2022
Announcement SEL-2019-02	March 06, 2019
Announcement SEL-2018-03	April 03, 2018

Part C, Selling, Securitizing, and Delivering Loans

Introduction

This part describes the requirements associated with the two primary ways lenders transact business with Fannie Mae: selling whole loans for cash and pooling loans into Fannie Mae mortgage-backed securities (MBS), which includes Uniform Mortgage-Backed Securities (UMBS).

C1, General Information on Execution Options and Loan Delivery

This subpart includes policies and procedures that pertain to both execution options: selling whole loans and pooling whole loans into MBS, which includes UMBS. This subpart also provides general information on making commitments, delivering loans, and servicing and borrower payment remittance options.

C2, Whole Loan Transactions

This subpart includes Fannie Mae’s policies, parameters, and other information regarding the sale and delivery of whole loans for cash. Whole loan products, commitment types and process, servicing fees, remittance types, loan payments and purchase adjustments are covered in the first chapter; requirements for good delivery, extensions and pair-offs, required data and documentation, funding and post-purchase adjustments in the second chapter.

C3, Mortgage-Backed Securities (MBS)

This subpart describes Fannie Mae's requirements for pooling mortgages that will serve as the underlying asset for MBS, which includes UMBS. This subpart also provides Fannie Mae's MBS program parameters and other information regarding MBS commitments, guaranty and buyup and buydown fees, pooling loans into fixed-rate and ARM MBS and Fannie Majors, and delivering and trading MBS.

Subpart C1, General Information on Execution Options and Loan Delivery

Introduction

This subpart includes policies and procedures that pertain to both execution options: selling whole loans and pooling whole loans into MBS, which includes UMBS. This subpart also provides general information on making commitments, delivering loans, and servicing and borrower payment remittance options.

Chapter C1-1, Execution Options Overview

Introduction

This chapter provides general information on selling whole loans and pooling loans into MBS, which includes UMBS.

C1-1-01, Execution Options (07/05/2023)

Introduction

This topic provides general information about selling whole loans to Fannie Mae and pooling loans into MBS, including:

- Age of Loan
- Volume Limitations
- Whole Loan Commitments
- MBS Commitments
- Pooling Loans Into a Fannie Mae Trust for MBS
- Bulk Transactions Options
- Pricing and Fees
- Loan-Level Price Adjustments
- Premium Pricing Recapture
- No Assignment of Whole Loan or MBS Commitments

Age of Loan

To be eligible for purchase by Fannie Mae on a flow basis, a loan must be no more than six months old measured from the first payment date to the "Purchase Ready" date (whole loans) or the MBS pool issue date (MBS loans). See B2-1.5-02, Loan Eligibility for additional information.

Volume Limitations

In conjunction with Section III. D of the *Mortgage Selling and Servicing Contract,* which provides that Fannie Mae is under no obligation to make a commitment to purchase any mortgage or participation interest from the lender, the following policies apply with regard to volume limitations:

- Fannie Mae may establish, amend, or cancel any mortgage loan volume limitations specific to a lender, which may be applicable to aggregate whole loan deliveries and sales, deliveries and sales in exchange for MBS, or both.
- Fannie Mae may also decline to engage in any specific transaction with a lender.

Volume limitations

- may apply to volumes delivered on a daily, monthly, or quarterly basis, or as otherwise determined by Fannie Mae in its sole discretion, and any such limitation will supersede any higher daily limitation set forth in the *Selling Guide* (C2-1.1-03, Mandatory Commitment Terms, Amounts, Periods and Other Requirements);
- will apply even though the mortgage loans comply with all applicable provisions of the *Selling Guide*; and
- will apply without regard to Fannie Mae's confirmation of any commitment taken by the lender in the whole loan or MBS committing application and/or other commitment.

> **Note:** Any confirmation made while a lender is over any such limitation or that would cause a lender to exceed such limitation may, at the option of Fannie Mae, be suspended or terminated, and the lender may be required to pair off such commitment(s).

Fannie Mae may impose volume limitations at any time, in its sole discretion, with no requirement that the lender be in default of any of its obligations under the Lender Contract. Fannie Mae's decision not to impose volume limitations against a lender does not mean that Fannie Mae condones any action or inaction by the lender, or that Fannie Mae is waiving its right to impose any such limitations in the future. Volume limitations will be effective when imposed, unless otherwise stated.

Whole Loan Commitments

Using Fannie Mae's whole loan committing application, lenders can enter into a mandatory or a best efforts commitment to sell whole loans to Fannie Mae for cash.

- With a mandatory commitment, the lender agrees to deliver a specified dollar amount of loans, within certain tolerances, to Fannie Mae by a specified future date. Fannie Mae agrees to purchase those loans at an agreed-upon price. If a lender is unable to meet the terms of the agreement, it may have to pair off the commitment, which may require payment to Fannie Mae of a fee (called a pair-off fee) or the transaction may be eligible for a cash back pair-off. See C2-1.1-04, Mandatory Commitment Extensions and Pair-Offs, for additional information.

- With a best efforts commitment, the lender agrees to deliver a specific loan to Fannie Mae by a specified date if that loan closes. If the loan does not close, the lender does not have to pay a fee. However, if the loan is closed, the lender must deliver the loan to Fannie Mae. If the lender changes the loan status to “Closed” and then does not deliver the loan, Fannie Mae may assess a pair-off fee.

For additional information, see C2-1, Mandatory and Best Efforts Commitments to Sell Whole Loans.

MBS Commitments

Using Fannie Mae’s MBS committing application, lenders can enter into mandatory commitments to sell MBS loans to Fannie Mae.

- With an MBS commitment, the lender agrees to sell a certain volume of mortgage loans having a specified set of loan parameters to Fannie Mae. Fannie Mae provides the lender with guaranty fee pricing for such mortgage loans for delivery under MBS execution. If a lender is unable to meet the terms of the commitments, it has the option to roll or pair off the commitments, which may require payments to Fannie Mae of a fee (referred to as a “roll fee” or “pair-off fee”).

For additional information, see C3-2-04, Mandatory MBS Commitments.

Pooling Loans Into a Fannie Mae Trust for MBS

Lenders can obtain pool purchase contracts that enable them to sell Fannie Mae pools of loans with similar characteristics. In exchange, Fannie Mae will issue an MBS backed by those loans. MBS can be created for either swap-and-hold or swap-and-sell transactions. With a swap-and-hold transaction, the lender holds the security after it is created; whereas with a swap-and-sell, the security is immediately sold to other investors.

Minimum submission amounts (by aggregate issue date principal balance) required are:

- fixed-rate mortgage loans, single-lender pools: $1 million
- adjustable-rate mortgage loans, single-lender pools: $500,000
- Fannie Majors, multiple-lender pools: $1,000. (Fannie Majors pools in aggregate must meet the minimum amounts noted above to be opened.)

For additional information, see Subpart C3, Mortgage Backed Securities.

Bulk Transactions Options

In addition to selling their current production on a flow basis, lenders can sell a wide variety of closed loans to Fannie Mae under MBS or whole loan transactions. For bulk transactions, lenders must contact their Fannie Mae customer account team or the Capital Markets Pricing and Sales Desk to determine what type of contract to use for MBS deliveries.

Pricing and Fees

When lenders commit to sell whole loans for cash, Fannie Mae provides a “live” price, so named because prices move throughout the day, generally in tandem with the MBS market. Live pricing options for mandatory whole loan commitments and best efforts commitments are posted within Fannie Mae’s whole loan committing application.

Lenders that participate in Fannie Mae’s MBS program pay Fannie Mae a guaranty fee remittance each month as compensation for the right to do so. Factors used to calculate the guaranty fee remittance rate include the credit risk of loans included in the pool, the servicing option that applies to each loan in the pool, and the remittance cycle that applies to the pool. The specific guaranty fee applicable to an MBS loan is set forth in the related MBS commitment between Fannie Mae and the lender.

> **Note**: Any pricing changes that are directed by Fannie Mae’s regulator will not affect the base guaranty fee reflected in any existing commitment unless required by the regulator. If this occurs, the lender will have the option of canceling any commitments that could be affected by the base guaranty fee change, with no pair-off, roll or extension fees due from the lender.

Lenders that elect to trade their MBS can obtain price indications by contacting Fannie Mae’s Capital Markets Pricing and Sales Desk (see E-1-02, List of Contacts) or via various financial information service providers. Prices are based on pass-through rates, maturities, and other factors.

Loan-Level Price Adjustments

For both whole loan and MBS transactions, Fannie Mae may apply one or more loan-level price adjustments (LLPAs) based on certain loan-level credit risk characteristics, such as credit score, loan purpose, occupancy, number of units, and product type. All LLPAs are cumulative. LLPAs are applied according to the following:

- Whole loans: LLPAs are calculated on the "Purchase Ready" date (as reflected in Loan Delivery) based on the unpaid principal balance of the loan. All applicable LLPAs will be deducted from the purchase proceeds.
- Loans in MBS: LLPAs are calculated on the MBS pool issue date based on the pool issue balance. All applicable LLPAs will be drafted from the lender's account designated for that purpose.

Fannie Mae may also waive LLPAs for certain transactions.

Lenders may be eligible for an LLPA refund on certain loans repurchased by the lender, as determined by Fannie Mae in its sole discretion. 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. If the total of all LLPAs paid by the lender for a loan is 50 basis points or less, Fannie Mae will not refund the LLPA. The LLPA refunds are available only for loans originally delivered as whole loans and repurchased within 18 months of acquisition by Fannie Mae. The refunds will be issued to the responsible party for the selling representations and warranties as a separate transaction (independent from the repurchase transaction) in the month following the completion of the repurchase.

For a current listing of LLPAs (and waivers), see the *Loan-Level Price Adjustment (LLPA) Matrix*.

Premium Pricing Recapture

With respect to any mortgage loan that pays off within 120 days from the whole loan purchase date or the MBS issue date, Fannie Mae in its sole discretion may require reimbursement by the lender for any premium paid in connection with the purchase of the mortgage loan. In Fannie Mae's sole discretion, the premium reimbursement amount may be reduced by the amount equal to the total of all LLPAs paid in connection with delivery of a mortgage loan less a processing fee of 50 basis points based on the unpaid principal balance at acquisition. For a whole loan, the premium is the amount that the purchase price exceeded the par price (100% of the face value) multiplied by the unpaid principal balance of the mortgage loan at the time of purchase. In the case of a mortgage delivered for MBS, the premium is the percentage amount above a par price that would have been applicable to the related MBS on the actual settlement date multiplied by the unpaid principal balance of the mortgage loan on the issue date.

For mortgage loans repurchased by a lender, Fannie Mae in its sole discretion may require reimbursement by the lender for any premium paid in connection with the purchase of the related repurchased mortgage loan without regard to the 120–day limitation.

> **Note**: Fannie Mae may require this reimbursement on a mortgage loan in an MBS regardless of the MBS investor.

No Assignment of Whole Loan or MBS Commitments

For information on assignment of Fannie Mae whole loan or MBS commitments see A2-1-01, Contractual Obligations for Sellers/Servicers.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-06	July 05, 2023
Announcement SEL-2023-01	February 01, 2023
Announcement SEL-2022-04	May 04, 2022
Announcement SEL-2020-04	August 05, 2020

Chapter C1-2, Loan Delivery Overview

Introduction

Many of the “good delivery” requirements for delivering loans in fulfillment of a whole loan commitment differ from those associated with a commitment to pool loans into an MBS. This chapter provides information about the delivery requirements that these executions have in common.

C1-2-01, General Information on Delivering Loan Data and Documents (05/01/2019)

Introduction

This topic provides general information on a lender’s obligation to supply data and documentation of all loans submitted to Fannie Mae for purchase, including:

- Timing and Deadlines
- Delivery Tolerances
- Loan Qualifications
- Receiving Sale Proceeds or Securities

Timing and Deadlines

A lender can begin to deliver loans against its commitments as soon as it receives a commitment confirmation number for whole loans, or an MBS commitment contract number for MBS loans. The lender must deliver the loans required to fulfill the commitment prior to the commitment expiration date. Specifically, lenders must submit loan data electronically, via Loan Delivery, and send the documentation package to the document custodian.

Fannie Mae may reject a loan for a variety of reasons, including failure to meet Fannie Mae’s eligibility requirements, incomplete or inaccurate loan delivery data, or incomplete document submission packages. Fannie Mae may assess a late delivery fee for loans that are redelivered after a commitment has expired. See C2-2-01, General Requirements for Good Delivery of Whole Loans, and C2-2-02, Documentation Requirements for Whole Loan Deliveries, for information concerning whole loan data and document delivery requirements and C3-7-04, Delivering MBS Pool Data and Documents, for information concerning data and document delivery requirements for loans in MBS pools.

Delivery Tolerances

For both whole loan and MBS deliveries, lenders may deliver an amount slightly higher or lower than the original commitment amount, without charge. For information on delivery tolerances specific to whole loan sales and MBS transactions, see C2-1.1-02, General Information about Mandatory Commitment Pricing and Fees, and C3-7-03, Making Good Delivery.

Loan Qualifications

Lenders must ensure that all loans selected for delivery meet Fannie Mae's underwriting and eligibility guidelines and legal requirements. The loan terms must also match the terms of the commitment, including mortgage type, amortization, original term, and pass-through rate(s) selected for delivery when the commitment was created.

Receiving Sale Proceeds or Securities

When Fannie Mae purchases loans in fulfillment of a whole loan execution, it does so by sending funds via wire transfer to an account designated by the lender for this purpose. For MBS transactions, Fannie Mae issues securities to the lender, if the lender has elected to hold the securities in its portfolio, or to the investor designated by the lender, if the lender has sold the securities before it delivers the loans to Fannie Mae. If the lender has elected to use an "original issue" settlement to fund a forward trade through Fannie Mae's Capital Markets Pricing and Sales Desk (see E-1-02, List of Contacts), the securities will be assigned directly to Fannie Mae. For details specific to the two types of transactions, see C2-2-03, General Information on Whole Loan Purchasing Policies, and C3-7-06, Settling the Trade, respectively.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-04	May 01, 2019
Announcement SEL-2018-03	April 03, 2018

C1-2-02, Loan Data and Documentation Delivery Requirements

(06/02/2021)

Introduction

This topic provides information on the loan data lenders must deliver in order to make good delivery, including:

- Electronic Submission via Loan Delivery
- Loan Delivery Application Resources
- Seller/Servicer-Initiated Post-Purchase Adjustments
- Special Feature Codes
- Documentation Requirements
- Delivery of the Fannie Mae Loan Number to the Document Custodian
- Additional Required Electronic Submissions

Electronic Submission via Loan Delivery

Loan data for all mortgages must be electronically transmitted to Fannie Mae using Loan Delivery. Loan Delivery is a Web-based application that allows lenders to deliver whole loans for purchase and MBS loans for securitization to Fannie Mae. Lenders can import loan and pool data, perform edits to facilitate error-free delivery, transfer loans between commitments (or pools), track the status of loan deliveries, generate reports, and export loan and pool data back to the lender's organization.

Loans may only be submitted and purchased in Loan Delivery if they are clear of all fatal edits. Loans are subject to all fatal edits in Loan Delivery throughout the submission, loan documentation certification and acquisition purchase process. If a loan encounters a fatal edit, the fatal edit must be resolved for Fannie Mae to acquire the loan.

Loan Delivery Application Resources

For information regarding the Uniform Loan Delivery Dataset (ULDD) and the data delivery requirements, access the ULDD page on Fannie Mae's website. The Fannie Mae Implementation Guide for Loan Delivery Data, Appendix D: Fannie Mae XML Data Reference, provides a listing of the ULDD required and conditionally required data fields, as well as field definitions and implementation notes. For additional guidance on ULDD, refer to the following resources available on the ULDD page:

- Frequently Asked Questions,
- ULDD Specification, and
- General and Technical Implementation Resources.

Resources specific to the Loan Delivery application that support the delivery of the ULDD data can be found on the Loan Delivery page on Fannie Mae's website. This page includes links to various resources, including:

- Loan Delivery Release Notes,

- Loan Delivery Business Rules Dictionary, and
- Loan Delivery Job Aids and User Guide (in Help & Training).

Seller/Servicer-Initiated Post-Purchase Adjustments

Lenders must notify Fannie Mae if they

- determine there are discrepancies in the data attributes submitted to Fannie Mae at the time of loan delivery and the lender's loan records,
- they did not submit housing goal attributes at initial loan delivery, or
- they believe there are errors in the whole loan Purchase Advice.

Lenders must follow the post-purchase adjustment process to resolve these matters. For additional information and instructions, see Fannie Mae's website. Also see C2-2-05, Whole Loan Purchasing Process for additional information about reconciling the Purchase Advice and after sale corrections.

Special Feature Codes

Lenders must include specific special feature code(s) (investor feature identifier) as part of the delivery data when delivering certain mortgage loans. Fannie Mae auto-derives certain special feature codes based on other data submitted in the delivery data. Auto-derived special feature codes are not required to be included in the lender's delivery data. For a list of special feature codes, including those that are auto-derived, see *Special Feature Codes*.

If a lender fails to identify or incorrectly identifies on a consistent basis any applicable special feature code(s) when it submits loans requiring these codes in fulfillment of a whole loan commitment or for inclusion in an MBS pool, Fannie Mae may impose a compensatory fee. The amount of the fee will be based on:

- the lender's overall performance,
- the lender's explanation for its failure to comply,
- previous instances of noncompliance,
- the amount of any previous compensatory fee, and
- any other factors Fannie Mae deems relevant.

For additional information about delivery of special feature codes, see the Special Feature Code section of the Loan Delivery/ULDD Job Aids.

Documentation Requirements

Documentation requirements will differ based on the type of loans being delivered to Fannie Mae. For details, see C2-2-01, General Requirements for Good Delivery of Whole Loans, C2-2-02, Documentation Requirements for Whole Loan Deliveries, and C3-7-04, Delivering MBS Pool Data and Documents, respectively.

See the *Fannie Mae Requirements for Document Custodians* (RDC guide) for document delivery and certification requirements.

Delivery of the Fannie Mae Loan Number to the Document Custodian

The lender is responsible for ensuring that the document custodian receives, within 30 days of loan certification, the Fannie Mae loan number for every mortgage loan for which the document custodian provides custodial services. The lender must respond within three business days to any request from the document custodian to provide the Fannie Mae loan number following the certification of the related mortgage loan.

Additional Required Electronic Submissions

Appraisal Data

Lenders are required to electronically submit certain appraisal reports through the UCDP prior to the delivery of the loan. See B4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP) for details on these requirements.

Uniform Closing Dataset (UCD)

The UCD is a common industry dataset that allows information on the Closing Disclosure to be transmitted electronically to Fannie Mae. Lenders are required to electronically submit a UCD XML file of the loan to Fannie Mae and receive a “Successful” status from the UCD collection solution prior to the delivery of the loan. The UCD XML file must contain the borrower data and the PDF of the borrower Closing Disclosure. Lenders are required to submit the UCD XML file for all conventional loans, regardless of whether the TILA/Regulation Z Rule requires the Closing Disclosure, including non-owner-occupied property loans.

For additional information on the UCD data requirements, refer to the UCD Delivery Specification.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-05	June 02, 2021
Announcement SEL-2021-01	February 03. 2021
Announcement SEL-2019-09	December 04, 2019
Announcement SEL-2018-09	December 04, 2018

Announcements	Issue Date
Announcement SEL-2018-03	April 03, 2018

C1-2-03, Ownership of Mortgage Loans Prior to Purchase or Securitization and Third-Party Security Interests (04/06/2022)

Introduction

This topic provides information on the following:

- Mortgage Loan Certification Overview
- Control of Mortgage Notes During the Loan Certification Processes
- Ownership Interest and Title to Mortgage Notes
- Conflicts Regarding Rights in Mortgages

Mortgage Loan Certification Overview

The Fannie Mae certification processes for whole loan and MBS deliveries are designed to assure Fannie Mae and the marketplace that all mortgage loans purchased or securitized by Fannie Mae conform to Fannie Mae's requirements and are not subject to any liens or claims of any third parties. Therefore, it is in Fannie Mae's interest that liens and claims in and to such notes are properly resolved as part of the loan pooling, certification, and acquisition processes.

It is critical to Fannie Mae's purchase or securitization of mortgage loans that Fannie Mae receives good delivery of loans that conform to Fannie Mae's requirements and, if applicable, meet the characteristics attributed to them in MBS disclosures. Therefore, Fannie Mae requires that mortgage sellers deliver mortgage documents to document custodians for review and certification prior to Fannie Mae's purchase or securitization of the loans. Document custodians must review all documents to ensure that all of the required documentation has been received and conform to Fannie Mae's requirements. Fannie Mae will not purchase whole loans or issue MBS until after it has received the document custodian's certification. The certification will state that the custodian has examined and maintains physical custody and control of the required documents for the mortgages.

Control of Mortgage Notes During the Loan Certification Processes

Fannie Mae recognizes that possession of notes is an important element of a note owner's or secured lender's protection of its rights. However, the nature of the whole loan purchase and MBS pooling and securitization processes requires that Fannie Mae, through its document custodian, obtains control of the notes as part of the certification review process and maintains control through the completion of the purchase or securitization process. Fannie Mae cannot purchase whole loans or permit pools to close and securities to be issued without being assured of continued control of the underlying notes.

Fannie Mae does not assert that it obtains ownership or title to the notes during the certification processes until such time as the purchase proceeds (cash or securities) for the certified loans are remitted pursuant to the terms of the purchase or securitization transaction. Any modifications or revisions to the terms of the notes or further physical movement of the notes during these processes are restricted; the certified documents must be “locked down” under the document custodian’s control prior to Fannie Mae’s remittance of the purchase proceeds. Fannie Mae recognizes that the legal rights of the mortgage seller delivering the notes (or, as applicable, of its warehouse lender) are unaffected by the certification processes until Fannie Mae has remitted purchase proceeds.

Ownership Interest and Title to Mortgage Notes

Effective upon the remittance of the purchase proceeds, Fannie Mae and/or its MBS trusts obtains and holds ownership and title to the notes and the notes will then be held by the document custodian on behalf of Fannie Mae. If the transaction fails to close as contemplated by the contract between Fannie Mae and the mortgage seller and purchase proceeds are not wired, Fannie Mae claims no ownership interest in the notes and requires that the document custodian return the notes to the mortgage seller or its warehouse lender, as applicable.

Conflicts Regarding Rights in Mortgages

If Fannie Mae becomes aware of any issues in which the rights of another party might impair its unqualified title to any mortgages that are delivered to Fannie Mae (including but not limited to a bailee letter), then Fannie Mae will not be required to deliver the related purchase proceeds in accordance with the lender’s delivery instructions until the issue is resolved to Fannie Mae’s satisfaction and Fannie Mae receives adequate assurances that it will have unqualified title to the mortgages.

Fannie Mae will not be responsible for the consequences of any delay in the delivery of the proceeds that results from its having to resolve an issue related to title to the mortgages.

Fannie Mae has established procedures for resolving title issues presented by its receipt of a bailee letter. See C1-2-04, Bailee Letters for lender requirements and *Fannie Mae’s Requirements for Document Custodians* (RDC guide) for document custodian requirements.

These processes are intended solely to verify the accuracy of certain loan information delivered by the mortgage seller (and not to benefit any third party). These procedures do not apply when the same corporate entity is both the warehouse lender claiming an interest and the document custodian because, by its execution of Fannie Mae’s *Master Custodial Agreement,* (Form 2017), the lender releases any interest it may have in the mortgage notes when it takes possession of them as Fannie Mae’s document custodian.

Recent Related Announcements

The table below provides a reference to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-03	April 06, 2022
Announcement SEL-2018-03	April 03, 2018

C1-2-04, Bailee Letters (04/06/2022)

Introduction

This topic provides information on bailee letters, including:

- Bailee Letters
- Resolution of Mismatched Delivery Instructions
- Liability for Losses Incurred by a Mortgage Seller or any Other Party

Bailee Letters

Bailee letters typically state that:

- the notes identified in the letter are pledged to the named third party,
- the lien of the third party's security interest will be released only if the proceeds from the transfer of the mortgages to Fannie Mae are delivered to the third party in accordance with the delivery instructions in the letter, and
- the recipient holds the notes as a "bailee" (or in trust) for the third party until the third party either receives the proceeds (cash or securities) or receives back the notes for any mortgages that were not purchased or securitized.

The term "bailee letter" includes any communication that notifies a document custodian of any of the following:

- the notes are pledged to a third party;
- the notes are subject to a security interest or lien held by a third party;
- the notes are owned by, or titled in the name of, a third party (for example, mortgages that are subject to a sale and repurchase arrangement); or
- the notes are subject to some other claim or interest held by a third party that would, if it were not released, result in Fannie Mae's acquiring less than clear, unencumbered, and exclusive title to the

mortgage notes.

The requirements for processing bailee letters and other notification of third-party interests in mortgage loans can be found in Fannie Mae's RDC guide.

Resolution of Mismatched Delivery Instructions

Fannie Mae will undertake to identify mismatches and to achieve matches in delivery instructions promptly, in good faith, and in accordance with reasonable business practices.

Liability for Losses Incurred by a Mortgage Seller or any Other Party

Fannie Mae will not be liable for any losses that a mortgage seller or any other party incurs as the result of Fannie Mae's actions or omissions related to these procedures, including Fannie Mae's execution of (or failure to execute) specific steps, and any resulting delay.

A mortgage seller is obligated to ensure that Fannie Mae takes free and clear title to the mortgages it delivers to Fannie Mae; therefore, it must make sure that its delivery instructions match those of its warehouse lender before it delivers the mortgage to Fannie Mae. Because of this obligation, the mortgage seller will be fully responsible for any trading or settlement delays (including those Fannie Mae experiences) that arise as the result of mismatches in delivery instructions. (See C3-7-06, Settling the Trade, for information on how to settle different delivery instructions.) Further, the execution of these procedures will not constitute a waiver of any of the rights and remedies Fannie Mae has under the mortgage seller's representation and warranty that the title to any mortgage note it delivers to Fannie Mae is free and clear of any security interest, lien, pledge, or other encumbrance.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-03	April 06, 2022
Announcement SEL-2018-03	April 03, 2018

Chapter C1-3, Loan Remittance Types Overview

Introduction

When selling loans to Fannie Mae, lenders must decide if they will service the loans or release the servicing to another Fannie Mae-approved lender. They must also select a method for remitting borrower payments to Fannie Mae. This chapter provides an overview regarding remitting payments to Fannie Mae.

C1-3-01, General Information on Remittance Types (08/26/2014)

Introduction

This topic provides an overview of borrower payment remittance types, including:

- Overview
- Actual/Actual
- Scheduled/Scheduled
- Scheduled/Actual

Overview

When taking down a commitment to sell whole loans to Fannie Mae, lenders must select a remittance type that identifies both the amount and timing for sending the borrowers' mortgage payments to Fannie Mae. Not all remittance types are available for all product types. For MBS mortgages, the only remittance type available is Scheduled/Scheduled.

After Fannie Mae purchases a mortgage, it generally will not change the remittance type the lender has selected. Refer to the applicable section of the *Servicing Guide* for more information about remittance types.

Actual/Actual

The Actual/Actual (A/A) remittance type is available for whole loans. It is required for HUD-guaranteed and Rural Development-guaranteed mortgages. Lenders must notify Fannie Mae immediately and remit the actual principal and interest collected from the borrower, net of servicing fees, to Fannie Mae.

Scheduled/Scheduled

The Scheduled/Scheduled (S/S) remittance type is available on a negotiated basis for whole loans, including ARMs, and fully amortizing fixed-rate conventional monthly payment first mortgages. It is required for MBS mortgages. Lenders remit scheduled interest (net of servicing fees) and scheduled principal due, whether or not payment is collected from the borrower.

Scheduled/Actual

The Scheduled/Actual (S/A) remittance type is available for whole loans. Lenders remit scheduled interest (net of servicing fees) regardless of actual collections from the borrower and actual principal collected the month following receipt of funds.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Subpart C2, Whole Loan Transactions

Introduction

This subpart includes Fannie Mae's policies, parameters, and other information regarding the sale and delivery of whole loans for cash. Whole loan products, commitment types and process, servicing fees, remittance types, loan payments and purchase adjustments are covered in the first chapter; requirements for good delivery, extensions and pair-offs, required data and documentation, funding and post-purchase adjustments in the second chapter.

Chapter C2-1, Mandatory and Best Efforts Commitments to Sell Whole Loans

Introduction

As noted in this chapter, when a lender enters into a mandatory commitment to sell whole loans to Fannie Mae, the lender agrees to deliver a specified dollar amount of loans, within certain tolerances, to Fannie Mae by a specified future date. Fannie Mae agrees to purchase those loans at an agreed-upon price. With a best efforts commitment, the lender agrees to deliver a specific loan to Fannie Mae by a specified date if that loan closes. The first section in this chapter provides the details associated with obtaining and fulfilling mandatory commitments to sell whole loans; the second section addresses best efforts commitments; and the third section describes the use of Servicing Marketplace in selling whole loans to Fannie Mae.

C2-1.1-01, Mandatory Commitment Process (10/30/2009)

Introduction

This topic provides information on the process lenders use to obtain a mandatory commitment to sell whole loans to Fannie Mae.

- Mandatory Commitment Process

Mandatory Commitment Process

To obtain a mandatory commitment to sell whole loans to Fannie Mae, lenders may use Fannie Mae's whole loan committing application, a free Web-based application available to subscribers, or may contact the Capital Markets Pricing and Sales Desk (see E-1-02, List of Contacts). Lenders can obtain information on subscribing to the whole loan committing application by contacting their Fannie Mae customer account team or the Capital Markets Pricing and Sales Desk, or by referring to Fannie Mae's website.

Lenders can obtain commitments on any weekday, with the exception of bond market observed holidays as defined by the Securities Industry and Financial Markets Association (SIFMA).

Fannie Mae confirms its acceptance of the lender's request for a mandatory commitment by electronically transmitting a commitment confirmation to the lender. If Fannie Mae is unable to process the electronic transmission, lenders are notified promptly. Should a lender have a problem receiving a commitment confirmation, it should immediately contact the Capital Markets Pricing and Sales Desk.

If the lender has obtained the commitment by contacting the Capital Markets Pricing and Sales Desk, the legally binding terms of the commitment are captured in a recorded telephone conversation between the lender and the Desk.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

C2-1.1-02, General Information about Mandatory Commitment Pricing and Fees (06/07/2023)

Introduction

This topic describes Fannie Mae's pricing policies and practices, including:

Overview

As noted in C1-1-01, Execution Options, when lenders commit to sell loans to Fannie Mae, Fannie Mae provides a "live" price, so named because prices move throughout the day, generally in tandem with the MBS market. Fannie Mae purchases regularly amortizing whole mortgages either at par (100% of the unpaid principal balance), at a discount, or at a premium, based on the type of mortgage being delivered and the pricing option specified in the whole loan commitment under which the mortgage is delivered.

Pass-Through Rates

For whole loans, the rate at which the lender must remit interest on the mortgages it sells to Fannie Mae via a mandatory commitment is the pass-through rate, defined as the difference between the gross note rate and the servicing fee. Lenders can choose a range of five consecutive pass-through rates in increments of 0.125% under the same mandatory commitment. When obtaining a commitment, lenders specify the minimum pass-through rate. The lender does not need to know the exact interest rate of the mortgages that will be delivered in fulfillment of the commitment as long as the pass-through rates fall within the selected range. The actual interest payments lenders will remit for regularly amortizing mortgages will depend on the remittance option selected by the lender.

Access to Pricing

Lenders obtain current pricing specific to their institution by accessing Fannie Mae's whole loan committing application.

Access to both generic and lender-specific pricing information is available to approved Fannie Mae lenders and requires a valid user ID and password. For information on obtaining access to this information, lenders should contact their Fannie Mae customer account team or the Capital Markets Pricing and Sales Desk.

Up-front Commitment, Extension, Overdelivery, Pair-off and Other Fees

Fannie Mae may charge up-front fees on commitments made to deliver adjustable-rate mortgages for which the lender has selected the scheduled/actual remittance option. See C1-3-01, General Information on Remittance Types, for more information on this remittance type.

Fannie Mae may charge lenders for lender-requested and automatic extensions for mandatory commitments (“extensions”), delivering more than the maximum delivery amount of their commitment (“overdelivering”), repurchasing all or part of a commitment (“pairing-off”), or otherwise failing to satisfy mandatory commitment requirements. These fees, if charged, are drafted from the lender’s designated account the business day following the assessment. If cash is due to the lender under a cash back pair-off, the lender’s designated account will be credited the business day following the pair-off. See below for account requirements.

Extension fees are based on three factors:

- Amount to be extended, which equals the lender’s original commitment amount minus any deliveries as of the date of the extension, and, if the extension is a partial extension, minus any partial pair-off amount;
- Actual number of days by which the commitment expiration date is being extended. (Note that if the request is for a 20-day extension and the 20th day falls on a weekend or holiday, the contract will be extended to the next business day.); and
- Daily interest charge, which is based on the minimum pass-through rate posted on the original commitment.

For overdelivery and pair-off fees, including cash back pair-offs, whole loan prices captured at commitment and again at the time of the overdelivery or pair-off are used to determine if a fee will be charged or if cash back is due and, if so, the amount. All pair-off amounts (including cash back pair-offs) are calculated from the original commitment amount, not the low delivery tolerance.

A lender must designate a non-MBS P&I custodial account from which Fannie Mae can and will automatically draft and credit whole loan transaction and related fees that it owes, or is owed by, Fannie Mae. The bank instructions for the account must be established in the Cash Remittance System (CRS).

Fannie Mae will draft or credit, as applicable, up-front commitment, extension, overdelivery, and pair-off fees from the lender’s designated account on the day following the request for the commitment, extension, overdelivery, or pair-off. Compensatory fees for failure to satisfy mandatory delivery requirements will be drafted from the designated account on the first Friday after the expiration of the commitment period and any additional time allowed to effect the delivery or a pair-off.

To ensure that funds related to borrower payments are not used to satisfy a lender’s corporate responsibility for the payment of fees or charges due Fannie Mae, a lender must make sure that its designated account will have sufficient funds on hand when Fannie Mae drafts it for the related fee. The lender must notify Fannie Mae immediately about changes to the status of its designated account to ensure Fannie Mae’s drafts are honored and protect the lender from being charged additional fees for late remittances.

Additional Resources

For additional information on specific topics, see the resources noted below:

- For information on best efforts and mandatory commitments, see C2-1.2-02, Best Efforts Commitment Pricing, Periods, and Fees, and C2-1.1-04, Mandatory Commitment Extensions and Pair-Offs.
- For information on overdeliveries, see C2-2-01, General Requirements for Good Delivery of Whole Loans.
- For information on compensatory fees associated with the delivery of ARMs in fulfillment of a Converted ARM Resale Commitment, see C2-1.1-07, Standard ARM and Converted ARM Resale Commitments.
- For information on LLPAs, see the *Loan-Level Price Adjustment (LLPA) Matrix*.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Dates
Announcement SEL-2023-05	June 07, 2023
Announcement SEL-2022-04	May 04, 2022
Announcement SEL-2019-08	October 02, 2019
Announcement SEL-2018-01	January 30, 2018

C2-1.1-03, Mandatory Commitment Terms, Amounts, Periods and Other Requirements (07/05/2023)

Introduction

This topic identifies the requirements for loans delivered against a whole loan commitment, including:

- Required Common Loan Attributes
- Commitment Amounts
- Commitment Periods
- Borrower Payment Status Requirements
- Assignments, Sales and Transfers of Whole Loans
- Negotiated Commitments

Required Common Loan Attributes

All loans delivered against a whole loan commitment must share certain common attributes. These include:

- Product type — See Mortgage Products for information about products eligible for sale to Fannie Mae.
- Mortgage type — Conventional or government
- Lien type — First mortgages
- Amortization type — Fixed-rate or adjustable-rate
- Mortgage term — 10-, 15-, 20-, or 30-year. Lenders may commit to deliver loans with nonstandard amortization terms or loans that exceed the maximum number of months for a given term by selecting the next highest amortization schedule available in Fannie Mae’s whole loan committing application, regardless of pricing option.
- ARM plan number, if applicable
- Remittance type

Commitment Amounts

Lenders may enter into multiple commitments but may not exceed $200 million in aggregate commitment volume per day. Lenders seeking permission to exceed this amount must contact the Capital Markets Pricing and Sales Desk (see E-1-02, List of Contacts). Lenders exceeding the limit without Fannie Mae approval may be required to pair off their commitment(s) at the lender's expense.

There is no minimum commitment amount for mandatory whole loan commitments. Note that commitments are issued in multiples of $1.

Commitment Periods

Commitments to deliver most loan products can be taken for 1 to 90 days. Lenders should be sure to choose a commitment period that allows sufficient time after loan closing for the fulfillment of the lender’s shipping and delivery requirements. (See C2-2-01, General Requirements for Good Delivery of Whole Loans, and C2-2-02, Documentation Requirements for Whole Loan Deliveries, for details.)

Commitments are based on calendar days but must expire on a business day. Lenders can track the status of their commitments in Fannie Mae’s whole loan committing application.

Borrower Payment Status Requirements

The table below provides the requirements for payment status for loans delivered to Fannie Mae.

Transaction Type	Payment Status
12 or fewer months old at the time of delivery	The borrower must not have had any 30-day delinquencies since the loan was originated.
More than one year old at the time of delivery	The borrower must not have any 30-day delinquencies in the 12-month period that precedes the lender's delivery of the loan to Fannie Mae.
Assumed	The payment status requirement applies to the current borrower. However, for a seasoned loan, if the current borrower has owned the property less than 12 months, the time period is reduced to the number of months that they have owned the property.

Assignments, Sales and Transfers of Whole Loans

By submitting a whole loan to Fannie Mae as a whole loan delivery, the lender represents, warrants, and agrees that all right, title, and interest in the mortgage is sold, transferred, set over, and otherwise conveyed by the lender to Fannie Mae as of the date of Fannie Mae's funding of the purchase proceeds.

A lender may deliver a loan that has been originated by another lender. However, the selling lender must make all of the warranties specified in Fannie Mae's Contract as if it were the originator. In such cases, the selling lender must be aware of all matters related to the loan that were known to the originating lender.

The lender may not assign Fannie Mae's whole loan commitments except to obtain construction financing or interim financing under a "warehouse" line of credit. If the construction or warehouse lender intends to use the commitment or contract to deliver mortgages to Fannie Mae on its own behalf, it must be an approved Fannie Mae lender. It also must notify the lender's Fannie Mae customer account team of the assignment before it delivers a loan to Fannie Mae.

Negotiated Commitments

Lenders that want to sell loans to Fannie Mae that contain unique eligibility and underwriting considerations not permissible for delivery via a standard commitment may request a negotiated commitment.

A variance between Fannie Mae and the lender is required when the lender is delivering whole loans via a negotiated commitment. Lenders should contact their Fannie Mae customer account team for details.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-06	July 05, 2023
Announcement SEL-2020-04	August 05, 2020
Announcement SEL-2019-01	February 06, 2019

C2-1.1-04, Mandatory Commitment Extensions and Pair-Offs (05/30/2017)

Introduction

This topic provides details on lender-requested and automatically-generated extensions and pair-offs, including:

Overview

Under certain circumstances, lenders may extend or pair off a mandatory whole loan commitment. In addition, in certain circumstances, Fannie Mae will automatically extend commitment periods and pair off commitment balances. For information on the fees associated with these activities, see C2-1.1-02, General Information about Mandatory Commitment Pricing and Fees.

Lender-Requested Commitment Extensions

Lenders may extend commitments on or before the original commitment expiration date for up to a maximum of 30 days from that date. They may request multiple extensions as long as the total extension period is no longer than 30 days. Each request must be made before the contract expiration date in effect following the previous extension. See C2-1.1-02, General Information about Mandatory Commitment Pricing and Fees, for information on the fees associated with a lender-requested extension.

Lenders may extend the entire outstanding commitment balance or a portion of it, if the lender also requests a partial pair-off of the remaining balance. The sum of the extended amount and the paired-off amount must equal the total remaining commitment amount.

Lenders may request extensions in Fannie Mae's whole loan committing application or through the Capital Markets Pricing and Sales Desk between 8:15 a.m. and 10:00 p.m. (Eastern time) on any business day (see E-1-02, List of Contacts). All telephone conversations are voice-recorded. Lenders should maintain detailed records of the contract extensions requested.

Fannie Mae-Implemented (Automatic) Commitment Extensions

If a lender fails to meet Fannie Mae's good delivery requirement within the original commitment period and has not previously extended the commitment, Fannie Mae will automatically extend it. Commitments expiring with outstanding unpaid principal balances will be automatically extended a minimum of five calendar days and assessed the appropriate extension fee. See C2-1.1-02, General Information about Mandatory Commitment Pricing and Fees, for information on the fees associated with an automatic extension.

If no deliveries have been made by the expiration of the five-day extension, Fannie Mae will effect an automatic pair-off and the appropriate fee assessed and drafted from the lender's designated account.

Lender-Requested Pair-offs

A lender may purchase (pair off) all or part of a mandatory delivery commitment in the whole loan committing application or by contacting the Capital Markets Pricing and Sales Desk between 8:15 a.m. and 5:00 p.m. (Eastern time), if it is unable to satisfy Fannie Mae's minimum delivery requirement. The request can be made at any time between the date on which the commitment was executed and the date on which it expires. The lender can obtain a new quotation later, but before the commitment expiration date, to avoid an automatic extension and the possible assessment of an automatic pair-off fee.

After Fannie Mae verifies the information required for calculating a pair-off fee, it will provide the lender with a fee quotation through either the whole loan committing application or through the Capital Markets Pricing and Sales Desk. The quotation may be for a pair-off fee to be paid by the lender or, if the transaction is eligible for a cash back pair-off, it may be for an amount due to the lender by Fannie Mae. The lender must accept the quotation within a short time frame if it wants to exercise the pair-off. Confirmation of the pair-off can be obtained in the whole loan committing application.

In conjunction with a lender-requested pair-off, if the whole loan price at commitment is greater than the price at the time of the pair-off solely as a result of market fluctuations (and not from any other cause, including product-related pricing changes implemented by Fannie Mae), then Fannie Mae will not charge a lender a pair-off fee but will provide cash back to the lender (known as a cash back pair-off). The lender is not eligible for a cash back pair-off on a commitment if

- the commitment gets paired off through the automatic pair-off process, and
- the mortgage products delivered under the commitment are deemed by Fannie Mae, in its sole discretion, to be ineligible per the *Selling Guide.*

Additionally, negotiated transactions with the Capital Markets Pricing and Sales Desk and commitments that exceed the daily volume limit may not be eligible for cash back pair-offs.

Though lenders are generally eligible to receive cash back on pair-offs upon approval to transact business in the whole loan committing application, Fannie Mae may decline to activate a lender for cash back pair-offs if, in Fannie Mae's sole discretion, the lender's anticipated business strategy does not align with Fannie Mae's use of the cash back pair-off process.

Additionally, if any of the following events occur, Fannie Mae may immediately terminate a lender's eligibility for cash back pair-offs:

- Fannie Mae, in its sole discretion, determines that the lender is obtaining commitments without the intent to deliver;
- there is any suspension of the lender's selling privileges under the *Master Selling and Servicing Contract (MSSC); or*
- the lender's MSSC is terminated.

Termination will be effective as to any new or outstanding commitments as of the effective date of the termination.

Fannie Mae-Implemented (Automatic) Pair-offs

Fannie Mae automatically pairs off the entire remaining commitment balance for any expired, unfulfilled mandatory commitment that has been previously extended, although Fannie Mae will first process any mortgage deliveries pending in its purchase pipeline.

Additional Resources

See C2-1.1-02, General Information about Mandatory Commitment Pricing and Fees, for information on

- the fees associated with a lender-requested pair-off,
- calculating cash back amounts, and
- the fees associated with an automatic pair-off.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

C2-1.1-05, Servicing Fees (05/01/2019)

Introduction

This topic describes how Fannie Mae compensates lenders for servicing loans on its behalf, including:

- Determining and Obtaining a Servicing Fee

Determining and Obtaining a Servicing Fee

A lender's servicing compensation when obtaining mandatory commitments is described in its applicable servicing contract. Lenders must also specify a maximum allowable servicing fee, which may differ, depending on the mortgage product. For example, the maximum servicing fee for all fixed-rate loans is 50 basis points (.50%).

Unless otherwise provided in the related servicing contract, every month, lenders deduct their servicing fee from the borrower's interest payment before remitting the remainder to Fannie Mae. Lenders will receive a servicing fee from Fannie Mae only for the period during which it serviced the loan on Fannie Mae's behalf.

For additional information regarding minimum and maximum servicing fees, refer to *Servicing Guide* F-2-09, Servicing Fees for Portfolio Mortgage Loans.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-04	May 01, 2019

C2-1.1-06, Accrued Interest Payments for Regularly Amortizing Mortgages (06/28/2011)

Introduction

This topic describes the policies for accrued interest payments for regularly amortizing mortgages, including:

Overview

The amount of servicing fee Fannie Mae will pay lenders for servicing regularly amortizing mortgages delivered via a mandatory commitment depends on the remittance option the lender has selected. (See C1-3-01, General Information on Remittance Types, for descriptions of the remittance types.)

Accrued Interest Payments for Regularly Amortizing Mortgages

For A/A remittances, Fannie Mae purchases accrued interest from the last paid installment date for the mortgage up to, but not including, the purchase date. This interest adjustment is based on the unpaid principal balance of the mortgage at the time it is submitted for purchase and the designated pass-through rate of the mortgage (which is the lesser of the net note rate and Fannie Mae's required yield for mortgages delivered under whole loan commitments that specify the standard pricing option). If interest is prepaid, Fannie Mae deducts accrued interest from the purchase proceeds.

For S/S remittances, Fannie Mae purchases accrued interest from the first day of the purchase month up to, but not including, the purchase date. This interest adjustment is based on the scheduled unpaid principal balance for the mortgage as of the purchase date and the designated pass-through rate of the mortgage.

For S/A remittances, Fannie Mae purchases accrued interest from the first day of the purchase month up to, but not including, the purchase date. This interest adjustment is based on the unpaid principal balance for the mortgage at the time it is submitted for purchase and the designated pass-through rate of the mortgage (which is the lesser of the net note rate and Fannie Mae's required yield for mortgages delivered under cash commitments that specify the standard pricing option).

Recent Related Announcements

There are no recently issued Announcements related to this topic.

C2-1.1-07, Standard ARM and Converted ARM Resale Commitments (05/30/2017)

Introduction

This topic provides information about whole loan mandatory commitments to deliver ARM loans to Fannie Mae, including:

- Standard ARM Mandatory Commitments
- Minimum Commitment Amount for Converted ARM Resale Commitments
- Process for Converting an ARM within an MBS to a Fixed-Rate Mortgage
- Commitment Timing, Pricing and Compensatory Fees for Converted ARM Resale Commitments

Standard ARM Mandatory Commitments

Lenders may take down mandatory whole loan commitments to deliver a variety of ARMs to Fannie Mae. Fannie Mae will purchase ARMs with varying initial fixed rate periods and indexes.

See the *Standard ARM Plan Matrix* for parameters for ARM loans eligible for sale to Fannie Mae, including the initial fixed interest rate period, interest rate adjustment frequency, indexes, and cap structure. Fannie Mae's standard ARM program does not permit the purchase of ARMs with caps ("floors") (other than the ARM's margin) on the lifetime decreases to the life of the loan. The margin for each ARM delivered must include the same servicing fee specified in the commitment.

For additional information, see the *Standard ARM Plan Matrix.*

Minimum Commitment Amount for Converted ARM Resale Commitments

Converted ARM Resale mandatory commitments are used by lenders to redeliver ARMs that were originally in an MBS pool and have been converted to fixed-rate whole loans.

Lenders must agree to deliver an amount (total UPB) equal to the outstanding balance of the mortgage to be delivered under the commitment. If the lender is delivering multiple mortgages with the same interest rate after conversion, the amount must equal the combined UPB of those mortgages.

Process for Converting an ARM within an MBS to a Fixed-Rate Mortgage

ARM loans with a conversion option are eligible for conversion to fixed-rate mortgages. When a borrower chooses to convert an ARM currently in an MBS pool, the lender must follow these steps.

Step	Process for Converting the Mortgage
1.	Contact Fannie Mae to repurchase the mortgage from the MBS pool before interest begins accruing at the new fixed rate.
2.	Redeliver the mortgage to Fannie Mae as a whole loan (A/A remittance only), if the lender specified a take-out post-conversion disposition option when it originally delivered the ARM.

Step	Process for Converting the Mortgage
3.	Continue any recourse or credit enhancement that initially applied to the mortgage unless the lender and Fannie Mae agree otherwise.
4.	Obtain a Converted ARM Resale commitment number from Fannie Mae. **Note**: Only mortgages originally delivered with the take-out post-conversion disposition option may be delivered under this commitment.

For additional information concerning the redelivery of ARMs under both the take-out and market rate options, see C3-5-04, Pooling ARMs with a Conversion Option.

Commitment Timing, Pricing and Compensatory Fees for Converted ARM Resale Commitments

See the table below for information on the relationship between the timing of the commitment and the pricing and fees Fannie Mae may charge.

Date Of Commitment Request	Price
On or before the 16th day of the month in which the conversion rate is requested.	Par.
After the 16th day of the month in which the conversion rate is requested.	Fannie Mae may discount the price the lender receives by • $250 or • the applicable discount created by the market movement between the first business day of the month in which the commitment was supposed to be requested and the date on which the commitment actually is obtained. As a result, Fannie Mae either bills lenders for the compensatory discount or reduces the lender's purchase proceeds by the applicable amount.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Section C2-1.2, Best Efforts Commitments to Sell Whole Loans

C2-1.2-01, Best Efforts Commitment Process (05/26/2015)

Introduction

This topic describes basic information about obtaining a best efforts commitment.

- Best Efforts Commitment Process

Best Efforts Commitment Process

To obtain a best efforts commitment, lenders may use Fannie Mae's whole loan committing application, a free Web-based application available to subscribers, or may contact the Capital Markets Pricing and Sales Desk. Lenders can obtain information on subscribing to the whole loan committing application by contacting their Fannie Mae customer account team or the Capital Markets Pricing and Sales Desk, or by referring to Fannie Mae's website.

Best efforts commitments may be made on weekdays between 8:15 a.m. and 5:00 p.m. (Eastern time) with the exception of bond market observed holidays as defined by SIFMA. After hours best efforts committing is also available on weekdays until 10:00 p.m.

Fannie Mae confirms its acceptance of the lender's request for a best efforts delivery commitment by providing a confirmation to the lender that the loan has been committed.

Additional information may also be obtained by reviewing Pricing & Execution on Fannie Mae's website.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

C2-1.2-02, Best Efforts Commitment Pricing, Periods, and Fees

(03/03/2021)

Introduction

This topic provides information on best efforts commitments, including:

- Best Efforts Commitment Pricing
- Best Efforts Pair-off Fees and Duplicate Commitment Price Adjustments
- Best Efforts Commitment Periods and Extension Fees

Best Efforts Commitment Pricing

As is the case with mandatory whole loan commitments, Fannie Mae offers lenders a “live” price in Fannie Mae’s whole loan committing application as its purchase price for loans delivered via best efforts commitments. Live prices move throughout the day, generally in tandem with the MBS market. Fannie Mae may charge fees or make pricing adjustments in conjunction with a best efforts commitment. See also C1-1-01, Execution Options.

Best Efforts Pair-off Fees and Duplicate Commitment Price Adjustments

Under the best efforts commitment option, generally a pair-off fee will not be assessed for commitments that fallout due to:

- cancellation of an applicant's rate lock, as long as the cancellation results from an applicant withdrawal or lender declination; or
- a change to the product type or key data which results in a change of the committed loan from a loan eligible for a best efforts commitment to a loan ineligible for a best efforts commitment.

A pair-off fee will be assessed for commitments where the fallout event is due to a failure, for any reason, to deliver the closed and committed loan to Fannie Mae, including when a lender (or a third-party originator who originates in the lender's name) has solicited new pricing and committed or sold the loan to Fannie Mae or another investor.

Fannie Mae may cancel a commitment and charge a pair-off fee in the event the property address is missing or fictitious or in the event the identical property address is used to enter into multiple commitments.

A duplicate commitment price adjustment will be assessed in the event a lender delivers a loan to Fannie Mae against any other (duplicate) commitment(s) for the same borrower and property address committed prior to or within 30 days of the original commitment's fallout or expiration date (the earlier of the two).

Best Efforts Commitment Periods and Extension Fees

As is the case with mandatory commitments, best efforts commitment periods may be as short as one day and as long as 90 days. Lenders may extend commitments on or before the original commitment expiration date for up to a maximum of 30 days for a fee. Lenders may request multiple extensions as long as the total extension period is not longer than 30 days. A best efforts commitment with a "Closed" loan status will automatically extend for five calendar days until the loan is purchased or the commitment has been extended for a maximum of 60 calendar days from the original expiration date. After a commitment has reached its maximum allowed auto-extension period, the whole loan committing application will automatically pair off the "Closed" status commitment.

Fannie Mae will notify lenders via the whole loan committing application of fees associated with extending the commitment period. Once notice is given, payment of the fee becomes an absolute obligation.

> **Note**: All committing fees and post purchase price adjustments will be drafted from the lender's draft account with Fannie Mae. All draft fees can be viewed on Fannie Mae's website.

Recent Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-02	March 03, 2021

C2-1.2-03, Best Efforts Commitment Terms, Amounts, and Other Requirements (03/03/2021)

Introduction

This topic provides information on terms and other requirements associated with best efforts commitments, including:

- Best Efforts Commitment Terms and Amounts
- Best Efforts Servicing Options
- Other Best Efforts Requirements
- DU Recommendations on Loans Delivered with Best Efforts Commitments

Best Efforts Commitment Terms and Amounts

By accepting any prices and delivering mortgages to Fannie Mae pursuant to a commitment obtained through

Fannie Mae’s whole loan committing application, the lender confirms that:

- the lender is approved and continues to satisfy the eligibility requirements as described in this Guide, and
- the mortgages comply with all Fannie Mae requirements in the Mortgage Selling and Servicing Contract and the *Selling* and *Servicing Guides*.

Fannie Mae will commit to pay to lenders proceeds that are based upon the acquisition price for committed loans, subject to any applicable adjustments, as long as:

- the key data and product type delivered matches the key data and product type reported to Fannie Mae to enter into the commitment, and
- the acquisition date is on or before the date upon which the commitment expires.

Best efforts commitments are for a specific borrower, address, and commitment period. Loan substitution is not allowed. Lenders may not change a best efforts commitment to a mandatory commitment (or vice versa) or change the remittance type from scheduled/scheduled to actual/actual (or vice versa).

Lenders must notify Fannie Mae via the whole loan committing application within one business day of any change to the key data or product type that occurs during the commitment period. If there is a change to the key data or product type and the new loan meets Fannie Mae’s eligibility requirements, the acquisition price for the committed loan may be changed to reflect the revised information (using worse case pricing when applicable).

Best Efforts Servicing Options

Lenders may retain, release, or sell the servicing rights associated with the loans they deliver in fulfillment of a best efforts commitment. Lenders may also execute a concurrent transfer of servicing via the whole loan committing application. If approved to participate in the Servicing Marketplace component of the whole loan committing application, lenders have the option to retain servicing or arrange for the concurrent sale of servicing to a participating servicer through the Servicing Marketplace. See C2-1.3-01, Servicing Marketplace, for more information.

Those retaining or releasing servicing may do so using the actual/actual or scheduled/scheduled remittance type. Certain products, however, require servicing via a specific remittance type. See C1-3-01, General Information on Remittance Types, for information on remittance types and the Cash Remittance System for details on remittance requirements for specific mortgage products.

For more information and to learn about additional terms and conditions associated with servicing-released executions, lenders should contact their Fannie Mae customer account team or the Capital Markets Pricing and Sales Desk for details.

Other Best Efforts Requirements

Fannie Mae's active document custodians serve as custodians for loans delivered via a best efforts execution. For additional information on the role of document custodians, see C2-2-02, Documentation Requirements for Whole Loan Deliveries. Also, refer to Fannie Mae's Active Document Custodians for a complete list of eligible custodians.

Early funding is available for loans delivered in fulfillment of a best efforts commitment. For details on this option and other options, and terms and conditions associated with best efforts commitments, lenders should contact their Fannie Mae customer account team or the Capital Markets Pricing and Sales Desk.

DU Recommendations on Loans Delivered with Best Efforts Commitments

A lender may fulfill a best efforts commitment by delivering a mortgage loan with a valid DU loan casefile ID that is associated with the lender's institution ID. The DU loan casefile must have received a DU recommendation of Approve/Eligible no earlier than 60 days prior to commitment. Alternatively, lenders may select the “Other” Underwriting Method (as viewed in the whole loan committing application), in which case a DU recommendation is not required.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-02	March 03, 2021
Announcement SEL-2019-04	May 01, 2019
Announcement SEL-2018-03	April 03, 2018

Section C2-1.3, Servicing Execution Tool to Sell Whole Loans

C2-1.3-01, Servicing Marketplace (03/03/2021)

Introduction

This topic describes the process for concurrent sale of servicing using the Servicing Marketplace component of

Fannie Mae's whole loan committing application, including:

- Concurrent Sale of Servicing
- Relationship Between Lenders and Servicers
- No Recourse to Fannie Mae
- Number of Servicers in Servicing Marketplace

Concurrent Sale of Servicing

Lenders may retain, release, or sell the servicing rights associated with the loans they deliver to Fannie Mae. Lenders may execute a concurrent transfer of servicing via Fannie Mae's whole loan committing application with either a best efforts or a mandatory commitment. By participating in the servicing-released component of the whole loan committing application, known as Servicing Marketplace, lenders may arrange for a concurrent sale of the servicing to an approved Fannie Mae servicer. See A3-3-02, Concurrent Servicing Transfers, for approval requirements and additional information.

All transfers of servicing using Servicing Marketplace must comply with this Guide and all applicable laws. The procedures and documentation required for a transfer of servicing are set out in the servicing transfer instructions available directly from the associated Servicing Marketplace transferee servicer.

A lender's rights and obligations related to a committed loan for which the lender has sold the servicing are as set forth in the *Mortgage Selling and Servicing Contract* and the *Selling* and *Servicing Guides*, and use of the whole loan committing application in no way alters a lender's obligations to Fannie Mae with respect to such loans.

Relationship Between Lenders and Servicers

Lenders and servicers using Servicing Marketplace must execute a purchase and sale agreement that governs the sale of servicing rights between lenders and servicers as provided herein, or lenders and servicers will be subject to the terms and conditions of the mortgage loan purchase and sale agreement set forth in E-2-05, Servicing Marketplace — Mortgage Loan Servicing Purchase and Sale Agreement.

No Recourse to Fannie Mae

Servicers are encouraged to use the Servicing Marketplace rate sheet to establish the price they will pay a seller for servicing. Fannie Mae's calculation of the net SRP and the net funding SRP using the servicer's rate sheet is based on unpaid principal balance, escrow funds, and other loan information submitted by the lender at loan delivery. Fannie Mae accepts no responsibility for the accuracy or completeness of such information and is entitled to rely on such information in calculating the net SRP and, if the servicer uses the "All-In Funding" feature of Servicing Marketplace, in collecting an amount equal to the net funding SRP from the servicer and remitting it to the lender on behalf of the servicer (or in deducting an amount equal to any negative net funding SRP from the acquisition proceeds and remitting it to the active servicer). Lenders will have no recourse to Fannie Mae if issues arise with any of the following:

- the accuracy or completeness of the information used to calculate the net SRP or the net funding SRP;

- the accuracy and completeness of any information that the lender obtains from the whole loan committing application and uses or relies upon in any way;
- the lender's sale (or attempted sale) of servicing to the servicer (other than the calculation, collection, and remittance of the net funding SRP and transfer of certain data to the servicer); or
- the servicing obligations and obligations relating to escrow funds.

Number of Servicers in Servicing Marketplace

Fannie Mae may increase or decrease the number of servicers that participate in Servicing Marketplace at any time.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-02	March 03, 2021
Announcement SEL-2019-09	December 04, 2019

Chapter C2-2, Whole Loan Deliveries to and Purchasing by Fannie Mae

Introduction

Whether selling whole loans to Fannie Mae under the terms of a mandatory, best efforts or converted ARM resale commitment, lenders receive the sale proceeds when they have made “good delivery.” This means that the mortgages delivered meet all of Fannie Mae’s underwriting and legal criteria and satisfy the terms of the commitment under which they are being delivered. This chapter provides information on the lender’s requirements for making good delivery and the policies and procedures Fannie Mae uses to fund Fannie Mae’s purchases. See C1-2-02, Loan Data and Documentation Delivery Requirements, for general information about this subject.

C2-2-01, General Requirements for Good Delivery of Whole Loans (08/07/2018)

Introduction

This topic provides Fannie Mae’s requirements for good delivery of whole loans, including:

Definition of Whole Loan Good Delivery

To receive funding for loans delivered in fulfillment of a mandatory, best efforts, or converted ARM resale commitment, lenders must make “good delivery,” meaning the loans delivered must meet all of Fannie Mae’s underwriting and legal criteria and satisfy the terms of the original commitment.

Fannie Mae’s good delivery requirements are not met unless:

- the applicable error-free mortgage documents and data reach the Fannie Mae-approved document custodian no later than the **first morning delivery**, the day prior to the expiration date of the commitment;
- the data reflected on the Loan Schedules pass all of the Fannie Mae purchasing edits;
- the aggregate unpaid principal balance of all mortgages delivered under the commitment at least equals Fannie Mae’s minimum required delivery amount (but does not exceed the maximum delivery amount on the expiration day of the commitment); and
- the aggregate unpaid principal balance of all mortgages delivered under the commitment does not exceed Fannie Mae's delivery limits for loans with nonstandard characteristics, such as high-balance loans.

To make good delivery on a best efforts commitment, the information concerning the loan that is delivered must match the key data elements specified in Fannie Mae’s whole loan committing application.

Amortization Schedule Requirements for Whole Loans

For whole loans delivered to Fannie Mae, the first payment date must be no later than two months from the final disbursement date of the loan proceeds. In the case of a single-close construction-to-permanent loan, the two month period begins at the time of the conversion to permanent financing.

The following table provides an example of this requirement.

If the final disbursement date occurs in...	Then the first payment date must be no later than...
January	March
February	April
November	January

Limitations on High-Balance Whole Loan Deliveries

The following outlines key whole loan requirements:

- In the whole loan committing application, high-balance 10-, 15-, 20-, and 30-year fully amortizing fixed-rate mortgage loans are eligible for delivery under standard whole loan mandatory commitments, as long as the high-balance loans do not comprise more than 10% of the aggregate unpaid principal balance of the commitment. If the delivery of a high-balance mortgage loan causes the lender to exceed the 10% limitation, the lender is required to deliver the mortgage loan against a high-balance whole loan commitment. High-balance products are available in the whole loan committing application for this purpose.

  > **Note**: 10–year fully amortizing fixed-rate high-balance mortgage loans are delivered under a 15–year high-balance commitment and 20–year fully amortizing fixed-rate high-balance mortgage loans are delivered under a 30–year high-balance commitment.

- The 10% limitation does not apply in the whole loan committing application to high-balance mortgage loans originated with non-TBA-eligible products (for example, ARMs) which may be delivered against standard conforming whole loan commitments, with no restriction on concentration.
- For best efforts commitments in the whole loan committing application, 15–year and 30–year fully amortizing fixed-rate high-balance mortgage loans must be delivered under 15–year or 30–year high-balance commitments, respectively. High-balance mortgage loans with 10– or 20–year fixed-rate terms or non-TBA-eligible products (such as ARMs) are not accommodated for best efforts commitments.

See B5-1-01, High-Balance Mortgage Loan Eligibility and Underwriting and B5-1-02, High-Balance Pricing, Mortgage Insurance, Special Feature Codes, and Delivery Limitations for additional information about high-balance mortgage loans.

Whole Loan Good Delivery Amounts

To make good delivery on a mandatory commitment, lenders must deliver loans for which the total UPB does not fall below the greater of $10,000 or 2.5% of the original commitment amount.

The minimum required delivery amount is an amount that will not fall below the original commitment amount by more than the greater of $10,000 or 2.5% of the original commitment amount, unless a lender requests a partial pair-off of a commitment. If that occurs, the minimum required delivery amount will be reduced to $50 below the revised commitment amount.

The maximum delivery amount is an amount that will not exceed the original commitment amount by more than the greater of $10,000 or 2.5% of the original commitment amount, unless a lender requests an overdelivery. If a lender requests an overdelivery, the maximum required delivery amount will be $50 above the revised commitment amount.

Overdeliveries of Whole Loan Commitments

Lenders may request permission via the whole loan committing application for mandatory commitments or by contacting the Capital Markets Pricing and Sales Desk (see E-1-02, List of Contacts) during regular business hours to over deliver, or deliver a total UPB that exceeds the maximum delivery amount.

The maximum overdelivery amount is 25% of the original commitment amount. For example, on an original commitment amount of $150,000, the maximum overdelivery amount is an additional $37,500 (25% of $150,000). In this example, the total delivered against the commitment cannot exceed $187,550 ($150,000 + $37,500 + $50).

After an overdelivery occurs, the maximum delivery tolerance level decreases to $50 above the new commitment amount. For commitments for which the overdelivery calculation (based on 25% of the original commitment amount) is less than $10,000, the high tolerance level becomes the maximum amount the lender can deliver.

Fannie Mae generally bases its decision on whether an overdelivery price adjustment will be due based on the movement in market prices between the date the commitment was originally obtained and the date on which Fannie Mae approved the overdelivery. If a price adjustment is due, Fannie Mae will draft an overdelivery price adjustment from the lender’s designated account on the following business day.

Extending and Pairing-Out of Whole Loan Commitments

For information about extending and pairing-out of whole loan commitments, see C2-1.1-04, Mandatory Commitment Extensions and Pair-Offs.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-06	August 07, 2018
Announcement SEL-2018-03	April 03, 2018

C2-2-02, Documentation Requirements for Whole Loan Deliveries (05/01/2019)

Introduction

This topic describes the documentation requirements for whole loan deliveries, including:

Required Documents for Whole Loans

See E-2-01, Required Custodial Documents, for a list of the mortgage documents that must be included in the document submission package for all loans.

Submission of Documents for Whole Loans to a Document Custodian

Mortgage document submission packages must be submitted to the document custodian via overnight delivery (with instructions for first morning delivery) for the following:

- whole loans,
- As Soon As Pooled Plus (ASAP Plus), and
- As Soon As Pooled (ASAP Sale).

All packages should be sent to the assigned document custodian and addressed according to the instructions provided by that custodian. The document custodian will certify the loans in accordance with the *Master Custodial Agreement* (Form 2017) in effect for Fannie Mae, the lender, and itself.

Whole Loan Deliveries to a Document Custodian

Lenders are required to submit data for whole loan deliveries to Fannie Mae via Fannie Mae's Loan Delivery application.

To ensure timely delivery to the document custodian, the seller should ensure the loan document submission package is submitted to its overnight carrier (with instructions for first morning delivery) the same day that the seller submits the loan data to Fannie Mae for purchase. Loan data delivered by the seller to Fannie Mae will be certified the next business day provided the documents have been delivered to the document custodian via first morning delivery, and there are no discrepancies and no unresolved lien issues.

When the document custodian receives the mortgage document submission package, it will review the related loan documentation to verify that all of the required documents have been received and are in order. The document custodian will then work with the lender to correct any certification data or document errors. Lenders can opt-in to receive email notices through Loan Delivery when data or document discrepancies are noted during certification. Lenders then have the option to accept or decline data changes the custodian proposes as a result of the discrepancy on the note and the data they provided. The lender must work with the custodian to ensure all discrepancies are resolved.

If there are no document or data-related errors, the document custodian will transmit a certification to Fannie Mae.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-04	May 01, 2019
Announcement SEL-2018-03	April 03, 2018

C2-2-03, General Information on Whole Loan Purchasing Policies (05/04/2022)

Introduction

This topic includes information on the conditions under which Fannie Mae will fund the purchase of a loan delivered in fulfillment of a whole loan commitment, including:

- Whole Loan Funding Requirements
- Warehouse Lender’s Release of Interest in the Property
- Procedures Related to the Secure Transfer of Funds

Whole Loan Funding Requirements

Fannie Mae will send the proceeds from the whole loan sale via a wire transfer into the lender's designated account on the "Purchased and Funded" date (as reflected in Loan Delivery) if:

- the designated payee code is valid;
- the loan is eligible for purchase; and
- the document custodian received a complete, accurate mortgage document submission package and loan delivery data by the applicable cutoff times.

Fannie Mae will direct the wire transfer to either:

- the account(s) and depository institution(s) the lender designates, or
- the lender itself (if it is able to receive wire transfers through the Fedwire system).

Lenders may make arrangements for different payees to receive transfers of purchase proceeds on an ongoing basis, unless a lender and its warehouse lender have executed a Triparty Wiring Instruction Agreement. See C2-2-08, Triparty Wiring Instructions, for details.

To avoid delays in purchasing and funding, Fannie Mae accepts delivery of any mortgage up to 45 days from the due date of the reported last paid installment.

Warehouse Lender's Release of Interest in the Property

When Fannie Mae purchases a mortgage, the mortgage seller represents and warrants that title to the mortgage note is free and clear of any security interest, lien, pledge, or other encumbrance, which means that any interest held by a warehouse lender must be released no later than the date Fannie Mae acquires the note.

To ensure that this is always the case, Fannie Mae has established delivery procedures to cover those instances in which the document custodian either:

- receives with the mortgage delivery documents a bailee letter notifying it of a warehouse lender's security interest, or
- is otherwise aware that a warehouse lender is claiming an interest of any kind in the mortgage notes being delivered.

This process is intended solely to ensure the correctness of the selling representations and warranties a mortgage seller makes to Fannie Mae (and not to benefit any third party). These procedures are outlined in C1-2-04, Bailee Letters. Also see C1-2-03, Ownership of Mortgage Loans Prior to Purchase or Securitization and Third-Party Security Interests, for additional information.

Fannie Mae also has established operational procedures that can be used to reduce instances of conflicting delivery instructions for pledged mortgages. See C1-1-01, Execution Options.

Procedures Related to the Secure Transfer of Funds

Each lender is responsible for establishing and maintaining controls and procedures that ensure the confidentiality of all transfer instructions and payee codes and the integrity of its communications with Fannie

Mae.

The lender agrees to be bound by any transfer instructions issued in its name and sent to Fannie Mae, whether or not they were authorized.

A lender is solely liable for transfers that are initiated (either directly or indirectly) as the result of a breach in its security arrangements or as the result of its failure to give Fannie Mae timely notice of an error, omission, or irregularity in establishing payee arrangements. The lender is fully responsible for notifying the Fannie Mae Asset Acquisitions by telephone and submitting written confirmation of the call to Fannie Mae within 24 hours of the breach. Fannie Mae will do everything possible to suspend operations until a correction is sent, including removing all payee codes on record for the lender and issuing new codes based on instructions the lender provides in accordance with Fannie Mae standard procedures.

The lender is advised that these procedures will not be used to detect an error in the transmission or content of a transfer of funds to the lender's designated bank or an error in processing a request to set up a payee code for use in transferring funds.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-04	May 04, 2022
Announcement SEL-2019-04	May 01, 2019
Announcement SEL-2018-03	April 03, 2018

C2-2-04, Timing of Distribution of Whole Loan Purchase Proceeds (05/04/2022)

Introduction

This topic describes the timing of Fannie Mae's funding of loans it purchases, including:

- Timing of Distribution of Proceeds for Regularly Amortizing Mortgages
- Impact of Late Submissions of Required Data and Documentation
- Early Funding Options

Timing of Distribution of Proceeds for Regularly Amortizing Mortgages

Fannie Mae will fund the purchase proceeds for whole loan deliveries of regularly amortizing mortgages provided the following procedure has already occurred:

- lender has electronically submitted clean, error-free loan delivery data through Loan Delivery by 9:00 p.m. (Eastern time),
- the document custodian has received a complete and accurate mortgage document submission package from a lender by first morning delivery the following day, and
- the document custodian has certified the mortgage document submission package.

Following the funding of the purchase proceeds the loan status in Loan Delivery will be "Purchased and Funded."

Impact of Late Submissions of Required Data and Documentation

If the required delivery data and documentation are not received by the applicable cutoff time, Fannie Mae will disburse the purchase proceeds on the business day following the date it receives these materials, assuming they are in order and the mortgage is eligible for purchase.

Early Funding Options

Fannie Mae offers approved lenders the ability to receive funding at earlier points in the process. For information on Fannie Mae's Early Funding Options and Loan Delivery, the application lenders use to submit requests for early funding, see Fannie Mae's website or contact the Capital Markets Pricing and Sales Desk (see E-1-02, List of Contacts).

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-04	May 04, 2022
Announcement SEL-2019-04	May 01, 2019
Announcement SEL-2018-03	April 03, 2018

C2-2-05, Whole Loan Purchasing Process (05/04/2022)

Introduction

This topic provides information on the process Fannie Mae uses to notify the lender (and the servicer, if the lender is not servicing the loan) of a whole loan purchase, including:

Notification to Lender of Purchases of Regularly Amortizing Mortgages

Lenders can access the following documents in Fannie Mae Connect:

- a seller’s Purchase Advice to detail Fannie Mae’s disbursement of the purchase proceeds, and
- a report to summarize the lender’s purchases for each whole loan commitment.

Servicers can obtain a Purchase Advice to provide the information necessary for its accounting records for the mortgages that it is servicing on behalf of a lender.

Contents of the Purchase Advice

The Purchase Advice will contain the following information:

- each loan, identified by a Fannie Mae loan number (which the servicer should enter into its records immediately because it must be used in reporting all subsequent activity related to the mortgage to Fannie Mae);
- details about the loan purchase, including loan information, price adjustments, and purchase proceeds; and
- a report with the applicable payee code for each wire transfer request.

The Purchase Advice will be available on the business day Fannie Mae funds the purchase proceeds.

Reconciliation of Purchase Advices and After Sale Corrections to Whole Loan Disbursements

The lender should examine each Purchase Advice it receives and reconcile the advice to its books and records to ensure that any transfer of funds is properly credited to the lender’s designated bank.

Fannie Mae expects lenders to have appropriate controls and procedures in place to perform timely and accurate reconciliations of the transfers of funds for all whole loan deliveries.

The lender must submit a post-purchase adjustment request to provide notice of any error, omission, or irregularity in the transfer of funds or in processing the request for the repetitive transfer within 30 days of the date of the Purchase Advice. Otherwise, Fannie Mae will assume that the information on its Purchase Advice is correct.

If the lender believes the amount disbursed is incorrect, it can request an adjustment by following the instructions provided in Seller/Servicer-Initiated Post-Purchase Adjustments.

The request must include the following:

- the lender's nine-digit Fannie Mae seller/servicer number;
- the ten-digit Fannie Mae loan number;
- the Post-Purchase Adjustment Request form;
- copies of the
  - *Loan Schedule;*
  - mortgage note;
  - mortgage payment history, if the discrepancy is related to the last paid installment or unpaid principal balance (UPB) at delivery;
  - ARM rider, if the loan is an ARM; and
  - any other items relating to the correction.

Submission of Mortgage Record Change to HUD for FHA Mortgage Purchases

After the lender receives notification that Fannie Mae has purchased a regularly amortizing FHA loan for its portfolio, the lender must complete a Mortgage Record Change (HUD Form 92080) and submit it to HUD through FHA Connection.

For notifications to FHA, lenders will also need to include Fannie Mae's Mortgagee Number 950010999 on the form. Only the first five digits of this number are required if submitting the HUD form through FHA Connection.

> **Note:** Fannie Mae is not currently purchasing FHA loans.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-04	May 04, 2022

Announcements	Issue Date
Announcement SEL-2021-01	February 03, 2021
Announcement SEL-2019-09	December 04, 2019

C2-2-06, Authorization to Transfer Funds (06/07/2023)

Introduction

This topic explains how a lender authorizes Fannie Mae to transfer funds for whole loan deliveries into its designated accounts, including:

Documentation Requirements

Fannie Mae will not transfer purchase proceeds for whole loan deliveries to a lender's designated bank account until the lender has provided Fannie Mae with an executed *Certificate of Authority, Incumbency, and Specimen Signatures* (Form 360) that designates the person or persons authorized to establish, change, or delete wire transfer instructions on the lender's behalf.

Lender's Agreement Related to the Execution of the Authorization to Transfer Funds

By executing Form 360, a lender agrees that

- Fannie Mae is authorized to conclusively rely on the accuracy, genuineness, and good faith of any written communication related to transfer instructions that bears the signature of one of the individuals designated on Form 360; and
- it will be fully responsible for any and all losses incurred by Fannie Mae that result from Fannie Mae's reliance on any instruction given to Fannie Mae by the lender's authorized representatives or any other person who has (or obtains) access to information or documents that compromise the security of any Fannie Mae electronic fund transfer systems or processes.

After Fannie Mae receives an executed Form 360 from a lender, Fannie Mae will rely on the information on that Certification until such time as the lender requests to modify or delete it.

Authorization for Repetitive Transfers

A repetitive transfer is one in which all aspects of the transfer, other than the date of the transfer and the amount of funds transferred, remain constant over time.

A lender that wants the purchase proceeds for the whole loan deliveries that it submits over any period of time to be wired to the same account(s) and depository institution(s) must have its authorized representative(s) submit a separate *Seller's Designation of Wire Transfer Instructions* (Form 482) for each arrangement, specifying any desired transfer routing instructions, any intermediary depository institutions, and appropriate account numbers for these repetitive transfers.

Fannie Mae will assign a unique payee code to identify each of the lender's instructions for repetitive transfers. The lender must then use this payee code to identify each whole loan delivery for which the purchase proceeds are to be wired to the designated payee.

Fannie Mae will rely on the ABA routing number and the account numbers that the lender's representative specifies on the Form 482 when it creates a payee code to identify each individual payee arrangement. Fannie Mae will make no effort to verify the accuracy of the routing number or the account numbers.

Generally, the only exception to this is that a lender may designate only one payee arrangement if it has executed a Triparty Wiring Instruction Agreement with its warehouse lender (see C2-2-08, Triparty Wiring Instructions). When a lender executes a Triparty Wiring Instruction Agreement, it specifies this information in the Agreement instead of submitting a Form 482.

Changes to or Deletion of the Authority to Transfer Funds

To add, delete, or change an authorized representative, the lender must submit a new Form 360 and corporate resolution.

Fannie Mae reserves the right to verify or authenticate any request for a change, but the lender cannot consider Fannie Mae's failure to do so an act of negligence.

In emergency situations, Fannie Mae may, in its sole discretion, delete the name of an authorized representative on the basis of a telephone call and/or an email request from another authorized representative; however, a revised Form 360 and a new corporate resolution must then be submitted promptly as confirmation of the change.

Fannie Mae will make reasonable efforts to act quickly on requests for emergency deletions of the names of authorized representatives. Fannie Mae cannot guarantee that it will be able to act quickly enough to prevent the execution of transfers by the individuals being deleted and bears no liability for the execution of any such transfers.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcement	Issue Date
Announcement SEL-2023-05	June 07, 2023
Announcement SEL-2018-01	January 30, 2018

C2-2-07, Purchase Payee Codes (04/03/2018)

Introduction

This topic contains information on purchase payee codes, including:

- Entering Purchase Payee Codes Into Fannie Mae's Records
- Changing or Deleting Purchase Payee Codes From Fannie Mae's Records

Entering Purchase Payee Codes Into Fannie Mae's Records

Lenders must specify a valid and appropriate payee code at delivery to have the purchase proceeds for a specific mortgage or group of mortgages transferred to the designated account.

The following steps are required to enter a payee code into Fannie Mae records:

Step	Procedure
1.	The lender's authorized representative submits a *Seller's Designation of Wire Transfer Instructions* (Form 482) to Fannie Mae.
2.	Fannie Mae contacts the lender's authorized representative with the new payee code.
3.	Fannie Mae updates the Loan Delivery application with the new payee code.
4.	The lender informs the appropriate staff (those who submit delivery data to Fannie Mae) regarding which payee code to use for which payee arrangement.

Changing or Deleting Purchase Payee Codes From Fannie Mae's Records

To change or delete an existing payee code, lenders must submit a new Form 482. Fannie Mae can delete or change the payee codes that are used to identify the lender's transfer arrangements at any time. If Fannie Mae intends to delete or change the payee codes, it will give lenders notice of its intention to do so. (Changes to, or deletion of, a payee code created in connection with the execution of a Triparty Wiring Instruction Agreement must be handled in accordance with the provisions of the Agreement.)

The following steps are required to change or delete an existing payee code:

Step	Procedure
1.	The lender's authorized representative completes and submits a new Form 482.
2.	Fannie Mae will make the requested change within two business days after receiving the valid and completed Form 482; however, Fannie Mae cannot guarantee that this will occur in time to prevent a previously authorized transfer of funds for a mortgage that is in its purchase pipeline or to stop a wire transfer that is in process.
3.	Fannie Mae contacts the lender's authorized representative to confirm the change or deletion.

> **Note**: In emergency situations, Fannie Mae will delete a payee code based on the lender's authorized representative's request; however, Fannie Mae cannot guarantee that it will be able to act quickly enough to prevent the execution of transfers that had been previously validated. The lender must then submit a Form 482 to confirm the request for the deletion.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-03	April 03, 2018

C2-2-08, Triparty Wiring Instructions (04/01/2009)

Introduction

This topic contains information on triparty wiring instruction, including:

General Information About Triparty Wiring Instruction Agreements

A Triparty Wiring Instruction Agreement provides a warehouse lender with contractual assurance that when mortgages in which it has an interest are delivered to Fannie Mae, the proceeds will be directed in accordance with its requirements.

By executing a Triparty Wiring Instruction Agreement, a lender, a warehouse lender, and Fannie Mae agree that the purchase proceeds for whole loan deliveries will be wire transferred to a single bank account and that no change to the wiring instructions will be made unless both the mortgage seller and the warehouse lender agree to the change.

Triparty Wiring Instruction Agreements are available through the Fannie Mae customer account team.

Arrangement of Triparty Wiring for Multiple Warehouse Lenders

If the mortgage lender uses multiple warehouse lenders, then it must designate one warehouse lender to

- execute the Triparty Wiring Instruction Agreement, and
- represent the interests of each of the other warehouse lenders.

The other warehouse lenders must execute a separate written agreement that

- gives the warehouse lender that signed the Triparty Wiring Instruction Agreement the authority to represent them for those mortgages in which they have an interest, and
- obligates the designated warehouse lender to take the steps necessary to redistribute purchase proceeds to the other warehouse lenders in a way that ensures that they receive their share of the proceeds, as appropriate.

Execution and Submission of Triparty Wiring Instructions Agreements

The lender and the warehouse lender must execute three originals of the Triparty Wiring Instruction Agreement and send them to Fannie Mae for execution to Triparty Wiring Instructions (see E-1-02, List of Contacts).

If the lender does not have a *Certificate of Authority, Incumbency, and Specimen Signatures* (Form 360) on file with Fannie Mae, it must execute that form and submit it to Fannie Mae with the Triparty Wiring Instruction Agreement so Fannie Mae can confirm that the individual executing the Agreement is authorized to do so.

Fannie Mae will return one executed original Triparty Wiring Instruction Agreement to the lender and one to the warehouse lender.

A Triparty Wiring Instruction Agreement will not become effective until the date that appears immediately after Fannie Mae's signatory execution; therefore, the lender must not send Fannie Mae any deliveries that are to be covered under the terms of the Agreement until the specified effective date.

Changes to Triparty Wiring Instruction Agreements

The lender's wiring instructions for any mortgage delivery that takes place after the effective date of the Triparty Wiring Instruction Agreement may be changed only if both the lender and the warehouse lender submit a jointly executed change request (in the format specified in Attachment A to the Agreement).

The effective date for the change may be "as soon as possible" or a specific date in the future (which should take into consideration that Fannie Mae makes a change within five business days after receiving a change request).

If a Fannie Mae wire transfer is rejected by the depository institution because of an inability to identify the account, then Fannie Mae will contact the lender to verify the instructions and allow it to update any erroneous ABA routing number or account number that resulted in the rejection.

Termination of Triparty Wiring Instruction Agreements

To terminate a Triparty Wiring Instruction Agreement, either the lender or the warehouse lender may give advance written notice to Fannie Mae, as long as the party giving notice obtains an acknowledgment from the other party to the Agreement (in the format specified in Attachment B to the Agreement).

The notice may specify an effective date for the termination, which must be at least six business days after the notice is sent in order to ensure that Fannie Mae has sufficient time to change its records to accommodate future deliveries.

The termination will not apply to any still unfunded mortgages that were delivered to Fannie Mae before its receipt of the termination notice.

Fannie Mae will disburse the purchase proceeds for those mortgages to the warehouse lender in accordance with the instructions it originally received, unless all of the parties to the Agreement agree otherwise in writing.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Subpart C3, Mortgage-Backed Securities (MBS)

Introduction

This subpart describes Fannie Mae's requirements for pooling mortgages that will serve as the underlying asset for MBS, which includes UMBS. It includes Fannie Mae's MBS program parameters and other information regarding MBS commitments, guaranty and buyup and buydown fees, pooling loans into fixed-rate and ARM MBS and Fannie Majors, and delivering and trading MBS and UMBS.

Chapter C3-1, MBS Program Overview

Introduction

This chapter provides basic information on Fannie Mae's MBS program and the lender's responsibilities associated with pooling loans into MBS, which includes UMBS.

C3-1-01, General Information About Fannie Mae's MBS Program (10/06/2021)

Introduction

This topic includes general information about Fannie Mae's MBS program (which includes UMBS), including:

- MBS Program Description
- UMBS Program Description
- MBS Single-Family Pool Trust Agreement
- Guaranty Fees
- MBS Pricing Parameters
- MBS Servicing Fees
- MBS Remittance Types and Cycles
- MBS Program Transaction Options
- Structured Transactions
- Fannie Mae's Capital Markets Pricing and Sales Desk

MBS Program Description

Fannie Mae MBS are securities that represent an ownership interest in pools of residential mortgages with similar characteristics. MBS are also known as “pass-through certificates,” because the principal and interest on the underlying mortgages are passed through to investors based on the percentage of the security that each investor owns. Fannie Mae guarantees to the related trust holding the mortgages that it will supplement amounts received by that trust as required to permit timely payment of principal and interest on the MBS.

Fannie Mae’s MBS program provides for the issuance and sale of MBS that represent fractional, undivided, beneficial ownership interests in a distinct pool of mortgages, such as the following mortgage types:

- conventional,
- FHA-insured,
- VA-guaranteed, and
- HUD-guaranteed Section 184 loans.

MBS transactions result in the formation of one of two types of pools:

- a single-lender pool, in which all of the mortgages share a common characteristic, such as amortization type, loan term or range of loan terms, mortgage type, or ARM plan number. The minimum pool size (aggregate UPB) for a fixed rate, single-lender pool is $1 million. For ARMs, the minimum pool size is $500,000.
- a multiple-lender pool, known as a Fannie Majors, that consists of pools of whole mortgages delivered by more than one lender. For Fannie Mae to open a Fannie Majors pool, the pool’s aggregate UPB must meet the minimum amounts noted above. Once opened, a lender may deliver loans with UPBs as low as $1,000.

UMBS Program Description

A common security issued by the GSEs that is eligible for trading in the To-be-Announced market. The securities are backed by fixed-rate loans secured by single-family one-to-four unit properties and are identified by certain pool prefixes.

MBS Single-Family Pool Trust Agreement

Fannie Mae holds, in its capacity as trustee, the mortgages sold to Fannie Mae by a lender or lenders in a trust comprising the pool and issues MBS that are backed by those mortgages. All mortgage loans related to a pool represent a separate trust and issuance of MBS. For each issuance of MBS, there will be an issue supplement to the Trust Agreement.

The Trust Agreement and any issue supplement are entered into by Fannie Mae in its corporate capacity (as Issuer, Master Servicer and Guarantor) and as Trustee. The trust agreement is posted at Single Family Master Trust Agreement. Issue supplements are available to investors in related pools upon request from the Fixed-Income Investor Helpline; see E-1-02, List of Contacts.

The Amended and Restated 2016 Single-Family Master Trust Agreement is effective for all fixed-rate and adjustable-rate mortgage loans in pools delivered to Fannie Mae, and Pooled from Portfolio loans included in pools, for all MBS issued on or after June 1, 2016.

Guaranty Fees

The lender must pay Fannie Mae a guaranty fee remittance each month as compensation for the lender's right to participate in the MBS program. The guaranty fee is ultimately a corporate responsibility of the servicer and is not a function of the pool cash flows; therefore, it must be paid even if there is no pool collection activity.

The guaranty fee remittance rate for MBS mortgages varies depending on:

- the credit risk of mortgages included in the pool,
- the servicing option that applies to each mortgage in the pool, and
- the remittance cycle that applies to the pool.

For additional details, see C1-1-01, Execution Options.

Lenders may buy up or buy down their guaranty fees. See C3-2-03, MBS Remittance Type and Selecting a Remittance Cycle, and *Chapter C3–3, MBS Guaranty Fees and Guaranty Fee Buyups and Buydowns*, for more information.

MBS Pricing Parameters

MBS prices are driven by investors and can change continually throughout the day. Pricing is a function of the security itself, such as, the type of mortgage backing the security and the coupon rate (the rate at which interest is paid to the investor); and market factors, such as interest rate fluctuations and overall MBS demand.

MBS may be bought or sold at par, at a premium, or at a discount, that is, a price equal to, greater than, or less than 100% of their face value.

MBS Servicing Fees

The lender determines the amount of the total servicing compensation it wants to receive when it establishes the interest rate for the mortgage, but Fannie Mae requires that it provide for at least a minimum servicing fee. Generally, the total servicing fee for a regularly amortizing mortgage is the difference between the interest rate of a loan and the sum of (a) the pass-through rate on the loan (or, for ARMs, the loan's contributions to the pool accrual rate) and (b) the guaranty fee.

The total servicing fee that is established when the MBS pool is formed generally will remain in effect for the life of the pool (without regard to whether the pool contains fixed-rate loans or ARMs).

- For all fixed-rate loans, the minimum servicing fee is 25 basis points (.25%) and the maximum servicing fee is limited to 50 basis points (.50%).
- For ARM loans, the minimum servicing fee is 25 basis points (.25%).

For additional information regarding minimum and maximum servicing fees, refer to *Servicing Guide* F-2-08, Servicing Fees for MBS Mortgage Loans.

MBS Remittance Types and Cycles

The scheduled principal and interest due on mortgages pooled into MBS must be remitted to Fannie Mae, whether or not it is collected from the borrowers (that is, accounted for using the scheduled/scheduled remittance type).

MBS Program Transaction Options

Lenders can opt to either hold the MBS in their investment portfolio (often referred to as a “swap-and-hold” transaction) or sell the MBS to another investor as part of the same transaction (“swap-and-sell”). Lenders can choose to service the mortgages underlying the MBS or sell the servicing associated with these loans to another financial institution.

Structured Transactions

MBS may be combined with other Fannie Mae mortgage-related securities to create a single structured transaction security, such as:

- Supers - Pass-through securities backed by groups of existing UMBS or other existing Supers;
- Megas — Pass-through securities backed by groups of existing MBS or other existing Megas;
- SMBS — Pass-through securities created by either (1) restructuring the interest and principal payments into separately tradable securities (standard SMBS) or (2) with Fannie Mae’s approval, depositing into an SMBS trust a portion of the interest payable on mortgage loans backing certain MBS—the “excess yield” (excess servicing SMBS); and
- REMICs — Multiclass mortgage-related securities backed by UMBS, MBS, Supers, Megas or whole loans.

Lenders that wish to deliver mortgage-related securities to Fannie Mae in exchange for a structured transaction security should contact the Capital Markets Structured Transactions group, to seek approval to do so.

Fannie Mae’s Capital Markets Pricing and Sales Desk

Lenders in good standing may be eligible to use the services of Fannie Mae’s Capital Markets Pricing and Sales Desk (“the Desk”) to either buy or sell MBS (and whole loans as well). The Desk also assists lenders in obtaining current market quotes and in finding markets for nonstandard MBS products. However, the Desk will not make individualized trade recommendations or determine the appropriateness or benefit of any particular transaction or strategy for a lender.

Lenders should note that they must consent to the recordation of all telephone conversations with the Desk. In the event of a conflict between a recorded telephone conversation and a confirmation or settlement notice sent by Fannie Mae to the lender, the recorded conversation represents the official terms of the transaction.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-09	October 06, 2021
Announcement SEL-2019-04	May 01, 2019

C3-1-02, Preparing to Pool Loans into MBS (05/01/2019)

Introduction

This topic provides information on the steps lenders need to take before they can obtain MBS commitments and pool loans into MBS, including:

- Obtaining Approval to Deliver MBS Loans
- Selecting a Document Custodian

Obtaining Approval to Deliver MBS Loans

A lender must obtain approval for MBS execution and access to Fannie Mae's MBS committing application before it can deliver mortgages into a single-lender MBS pool or a Fannie Majors.

Fannie Mae considers a number of factors prior to offering MBS execution to a lender. These factors include, but are not limited to, the following:

- the expertise of the lender's management in securitization,
- whether the lender's operational processes support MBS delivery and servicing requirements,
- the lender's ability to manage and maintain a delivery process that ensures the delivery of accurate data to Fannie Mae,
- the lender's prepayment speeds, and
- the lender's performance against outstanding Fannie Mae obligations.

Fannie Mae does not accept requests for MBS execution from lenders whose selling or servicing privileges have been suspended or that have not performed satisfactorily under other MBS commitments or contracts.

Selecting a Document Custodian

Lenders must select an eligible document custodian and have an executed *Master Custodial Agreement* (Form 2017) in place before obtaining an MBS commitment (see A3-3-04, Document Custodians). The document custodian certifies, takes and retains actual physical possession of the custodial documents for the mortgages. Also, see the RDC guide for document custodian eligibility criteria, and Fannie Mae's Active Document Custodians for a complete list of eligible custodians.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-04	May 01, 2019
Announcement SEL-2018-03	April 03, 2018

Chapter C3-2, MBS Securitization Process

Introduction

This chapter provides information on the MBS securitization process, including loan parameters, transaction types, guaranty fees, buyups and buydowns, servicing fees, pricing, and funding.

C3-2-01, Determining Eligibility for Loans Pooled into MBS (09/07/2022)

Introduction

This topic contains information on eligibility requirements for loans pooled into MBS (which includes UMBS), including:

General Eligibility Requirements for Loans Pooled into MBS

All loans pooled into MBS must be secured by a first mortgage and must represent the entire right, title, and interest in the note and the related security instrument, unless the MBS commitment expressly indicates otherwise.

As of the issue date of the MBS, the loans in the related MBS pool may not be delinquent by more than one monthly installment of principal and interest that is due on the issue date (including the period beginning on the second day of the month preceding the issue date and ending on the issue date). For example, if the first payment date is November 1, and the issue date of the MBS is January 1, then, in order to be eligible for purchase by Fannie Mae, the November and December payments must have been paid, and the only payment that may be delinquent (due) would be for the period December 2 through January 1.

In addition,

- if the loan is one year or less from the first payment date to the pool issue date, the borrower cannot have any 30–day delinquencies since origination; and
- if the current borrower assumed the loan and has owned the property for one year or less, the borrower must have no 30-day delinquencies since purchasing the property.

See B2-1.5-02, Loan Eligibility, for the requirements concerning seasoned loans.

Nonstandard Loans

“Nonstandard loans” (or loans with nonstandard characteristics) may be pooled into MBS, but depending on the concentration in the pool, may only be pooled as negotiated rather than standard transactions.

Nonstandard loans are:

- co-op share loans,
- relocation loans (defined below),
- loans with significant interest rate buydowns, and
- high-balance loans.

In a TBA-eligible UMBS pool, nonstandard loans are each limited to 10% of the issue date UPB of a TBA-eligible UMBS pool. If loans with more than one of the nonstandard characteristics are included in the same TBA-eligible UMBS pool, the sum of the issue date UPB of two or more of the loans with nonstandard characteristics may not exceed 15% of the total issue date UPB of the pool. The 15% cumulative limitation, however, does not apply to high-balance loans.

For pools with greater than 10% concentrations of nonstandard loans, see the Pool Prefix Glossary for the applicable pool prefixes. Nonstandard loans may be delivered into existing MBS commitments and may use the same base guaranty fee as those used for the lender's standard conforming loans.

Lenders may deliver loans with the nonstandard characteristics described above into Fannie Majors TBA-eligible UMBS pools. For Fannie Majors requirements, see C3-6-01, Parameters for Pooling Loans Into Fannie Majors.

For the purposes of TBA pooling parameters, a relocation loan is an owner-occupied purchase money loan, originated pursuant to an established employee relocation program, administered by the employer (or its agent), where the employer relocates employees as part of its normal course of business. A loan that involves an employee relocation that does not meet these parameters is not considered a relocation loan for TBA pooling purposes, and as such, the pooling limitations and SFC 013 delivery requirement are not applicable.

Examples

The issue date UPB of loans with significant interest rate buydowns and the issue date UPB of co-op share loans individually may not exceed 10% of the total issue date UPB of the TBA-eligible UMBS, and together may not exceed 15% of the total TBA-eligible UMBS. However, while the issue date UPB of high-balance loans and the issue date UPB of co-op share loans individually may not exceed 10% of the total issue date UPB of the TBA-eligible UMBS, together they may exceed 15% of the total TBA-eligible UMBS because high-balance loans are not subject to the 15% limitation.

Identifying Nonstandard Loans at Delivery

As a reminder, nonstandard loans must be identified at delivery with the following:

- relocation loans – SFC 013
- loans with significant interest rate buydowns – SFC 014
- high-balance loans – SFC 808
- co-op share loans – the Legal Structure in Loan Delivery is "cooperative."

Amortization Schedule Requirements for MBS Loans

For loans pooled into MBS, the first payment date must be no later than two months from the final disbursement date of the loan proceeds. In the case of a single-close construction-to-permanent loan, the two-month period begins at the time of the conversion to permanent financing.

The following table provides an example of this requirement.

If the final disbursement date occurs in...	Then the first payment date must be no later than...

If the final disbursement date occurs in...	Then the first payment date must be no later than...
January	March
February	April
November	January

Standard pooling allows lenders to include in an MBS pool only those loans for which the first payment date is no later than the first day of the month that immediately follows the issue date of the related MBS. The pool issue date is the first day of the month in which securities backed by the MBS pool are issued. For seasoned loans, the first payment date must be at least 12 months prior to the pool's issue date.

In addition, the loan's amortization schedule must not provide for any period during which principal has been disbursed and is outstanding, but interest is not accruing. However, if the lender chooses to pool within the same month of loan origination (also known as "same month pooling"), the loan may begin to amortize on the first day of the month that is two months after the issue date of the securities, with the initial remittance to Fannie Mae being an "interest-only" remittance, because the borrower will not have made their first payment at the time of the initial remittance.

A negotiated contract is needed to pool loans for which the borrower's monthly payment is due on a day other than first of the month ("odd due dates").

Requirements for Pooling Seasoned Loans into MBS

Lenders may pool current or seasoned loans into a single-lender MBS. Fannie Mae has no minimum seasoning requirement for conventional loans included in single pool transactions. Refer to C3-6-01, Parameters for Pooling Loans Into Fannie Majors for additional information about seasoning for Fannie Majors.

If a pool of ARM loans will have amortized by more than 12 monthly payments as of the issue date of the pool, the terms of a negotiated contract will specify whether the loans will be treated as current or seasoned. The key determinants are the length of the interest rate adjustment intervals and whether interest rate or payment adjustments will have occurred by the pool's issue date.

For a converted ARM (which is a fixed-rate loan that was once an ARM until the borrower exercised an option to convert it to a fixed rate), the 12-month period is measured from the date of conversion to the issue date month of the related pool.

To sell seasoned loans under an MBS execution, lenders must have an MBS commitment that permits delivery of seasoned loans. For information on pricing and parameters, contact the Capital Markets Pricing and Sales Desk (see E-1-02, List of Contacts).

Interest Rate Requirements for Loans Pooled into MBS

Loans with different annual rates of interest can be included in the same MBS pool, as long as those rates fall within the minimum and maximum spreads Fannie Mae allows between the loan interest rates and the pass-through rate for the MBS pool.

For fixed-rate loans that are pooled, the minimum allowable interest rate is 25 basis points (.25%) above the pool's pass-through rate and the maximum allowable interest rate is 112.5 basis points (1.125%) above the pool's pass-through rate.

Generally, for ARMs that are pooled, the minimum allowable interest rate is the sum of the lowest guaranty fee (after all applicable adjustments have been made, including buyups and buydowns) and the lender's minimum servicing fee, which must include renewal premiums for lender-purchased mortgage insurance, if applicable. The recommended maximum allowable interest rate is 100 basis points (1%) over the minimum allowable interest rate. Lenders must comply with the allowable minimum and maximum interest rates for each MBS ARM structure.

Servicer Requirements for Loans Pooled into MBS

All loans in a single issuer MBS pool must be serviced by the same entity. If a lender plans to deliver several pieces for inclusion in a multiple pool (Fannie Majors), each piece may have a different servicer. The lender may deliver any combination of seller/servicer numbers for inclusion in a multiple pool (Fannie Majors), however the servicers designated must be servicing loans in the multiple pool that have the same remittance cycle as the loans being delivered.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-08	September 07, 2022
Announcement SEL-2021-09	October 06, 2021
Announcement SEL-2019-06	July 03, 2019
Announcement SEL-2019-04	May 01, 2019
Announcement SEL-2019-03	April 03, 2019
Announcement SEL-2018-06	August 07, 2018

C3-2-02, Selecting a Servicing Option (04/01/2009)

Introduction

This topic provides information about the two options lenders must choose from when deciding how they wish to service loans pooled into MBS. These options include:

- Impact of Servicing Option Selection on Guaranty Fees
- Regular Servicing Option
- Special Servicing Option

Impact of Servicing Option Selection on Guaranty Fees

Guaranty fees are affected by the servicing option chosen by the lender. Generally, the guaranty fee for pooled loans serviced under the Regular Servicing option is typically lower than for pooled loans serviced under the Special Servicing option.

Regular Servicing Option

Under the Regular Servicing option (identified by foreclosure risk code L), the lender assumes the entire risk of loss from a borrower default while servicing the mortgage and, as a result, is charged a lower guaranty fee. The lender also agrees to provide for a successor to this agreement if it transfers its responsibilities for servicing the mortgage to another servicer.

Special Servicing Option

Under the Special Servicing option (identified by foreclosure risk code F), Fannie Mae assumes the risk of loss from a borrower default. Fannie Mae reimburses the lender for its share of the lender's unrecovered advances for delinquencies and advances related to servicing the mortgages.

See the *Servicing Guide* for more information about both options.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

C3-2-03, MBS Remittance Type and Selecting a Remittance Cycle (10/25/2011)

Introduction

In this topic, the lender's options with respect to remitting principal and interest on MBS pool loans are addressed, including:

- MBS Pool Remittance Type
- Standard Remittance Cycle

MBS Pool Remittance Type

All MBS mortgages are accounted for as the scheduled/scheduled remittance type. This means that a servicer may have to advance its own funds to cover the amount Fannie Mae is due on a mortgage for which the monthly payment of principal and interest is late.

Standard Remittance Cycle

Under the standard remittance cycle, lenders remit scheduled P&I payments on the 18th of the month in which they are due from the borrowers (or, if the 18th is not a business day, on the business day preceding the 18th). Unscheduled principal payments must be remitted by the 18th of the month following collection.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

C3-2-04, Mandatory MBS Commitments (12/06/2016)

Introduction

This topic contains information on obtaining and fulfilling mandatory commitments to sell loans under an MBS execution, including:

- Overview
- Mandatory MBS Committing Process
- Access to Guaranty Fee Pricing
- Negotiated Commitments

- MBS Commitment Rolls and Pair-Offs

Overview

A lender must obtain an MBS commitment before it can deliver mortgages into a single lender MBS pool or a Fannie Majors. The commitment evidences an agreement between Fannie Mae and a lender to buy and sell, respectively, mortgages for inclusion in a particular MBS pool. These contracts set forth the terms and conditions for delivery of specified mortgages for MBS. When a lender enters into a mandatory MBS commitment to sell loans to Fannie Mae, the lender agrees to sell a certain volume of loans having a specified set of loan parameters to Fannie Mae, and Fannie Mae provides the lender with guaranty fee pricing for such mortgage loans for delivery under MBS execution.

Mandatory MBS Committing Process

To deliver MBS loans to Fannie Mae a lender must obtain a mandatory MBS commitment using Fannie Mae's MBS committing application, a free Web-based application available to subscribers approved for MBS execution. The lender's agreement to use Pricing & Execution (PE)-MBS in accordance with the applicable requirements is part of the Lender Contract. For more information and terms of use applicable to the PE-MBS application, see Fannie Mae's website.

Lenders can obtain commitments on any weekday, with the exception of bond market observed holidays as defined by the Securities Industry and Financial Markets Association (SIFMA). Lenders can also obtain commitments for delivery in a future MBS issue month for all mortgage products for which pricing is offered through the MBS committing application.

Fannie Mae confirmed its acceptance of the lender's request for a mandatory commitment by electronically transmitting a commitment confirmation to the lender. Lenders should contact the Capital Markets Pricing and Sales Desk if they experience any problems receiving a commitment confirmation (see E-1-02, List of Contacts).

Access to Guaranty Fee Pricing

Lenders obtain current guaranty fee pricing specific to their institution by accessing Fannie Mae's MBS committing application. If the lender wants to request pricing for a mortgage product in an issue month that is not available in the MBS committing application, then the lender must contact its Fannie Mae customer account team or the Capital Markets Pricing and Sales Desk.

Negotiated Commitments

Lenders that want to sell loans to Fannie Mae that contain unique eligibility and underwriting considerations not permissible for delivery via a standard commitment may request a negotiated commitment. Lenders should contact their Fannie Mae customer account team for details.

MBS Commitment Rolls and Pair-Offs

MBS commitments are for mandatory delivery by the lender. If the lender is unable to meet the terms of the commitment, the lender must take the action in the MBS committing application to pair-off or roll the outstanding balance of the commitment before the last business day of the issue month applicable to that commitment. Fannie Mae may charge lenders for lender-executed or lender-requested rolls or pair-offs for mandatory commitments. These fees, if charged, are drafted from the lender's designated account.

Fannie Mae may pair-off the outstanding balance of a commitment on a lender's behalf if the lender fails to pair-off or roll the outstanding balance into the following issue month by last business day of the issue month of the related commitment.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Chapter C3-3, MBS Guaranty Fees and Guaranty Fee Buyups and Buydowns

Introduction

Lenders must pay Fannie Mae a guaranty fee remittance each month as compensation for the lender's right to participate in the MBS program. This chapter provides information on guaranty fees and the requirements associated with buying the fee up or down.

C3-3-01, Determining and Remitting Guaranty Fees (10/25/2011)

Introduction

This topic provides information on the factors used to determine the amount of a lender's guaranty fee, including:

- Guaranty Fee Overview
- Determining the Annualized Weighted-Average Guaranty Fee Factor for a Pool
- Determining the Monthly Guaranty Fee Remittance for the Pool
- Remitting Guaranty Fees to Fannie Mae

Guaranty Fee Overview

The guaranty fee for individual loans included in an MBS pool depends upon the credit risk associated with the loan and the lender's choice of servicing option and remittance cycle. The guaranty fee remittance for MBS pools is based upon a weighted-average guaranty factor. See below for a description of how to calculate the annualized weighted-guaranty factor and the pool guaranty fee.

Determining the Annualized Weighted-Average Guaranty Fee Factor for a Pool

The annualized weighted-average guaranty fee factor for a pool (expressed in basis points) is determined by multiplying the issue date principal balance of each mortgage loan in the pool (or, in subsequent months, the "scheduled" balance of each mortgage loan) by the applicable guaranty fee rate for the mortgage loan expressed in basis points (adjusted for any remittance cycle adjustments, buyup, or buydown, if applicable), then:

- summing the products of all the mortgage loans in the pool,
- dividing that sum by the aggregate issue date principal balance for the pool (or, in subsequent months, by the "scheduled" security balance for the pool), and
- rounding the result to the nearest hundredth of a basis point.

The result is the annualized weighted-average guaranty fee factor for a pool.

Determining the Monthly Guaranty Fee Remittance for the Pool

The annualized weighted-average guaranty fee factor is then

- multiplied by the aggregate issue date principal balance of the pool (or, in subsequent months, the "scheduled" security balance for the pool),
- divided by 120,000, and
- rounded to two decimal places.

The result is monthly guaranty fee remittance for the pool.

Remitting Guaranty Fees to Fannie Mae

On the 7th day of each month (or, if the 7th is a holiday or weekend, on the preceding business day), Fannie Mae will draft guaranty fee remittances from the custodial bank account the lender designates as its draft account.

If the guaranty fee remittance is to be drafted from the lender's P&I custodial account for MBS pools, then the lender must make sure that it does not withdraw the guaranty fee remittance when it takes its monthly servicing fee from the account.

For more information about designating bank accounts for drafting purposes and confirming guaranty fee remittances, see the *Servicing Guide*.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

C3-3-02, Accessing Buyup and Buydown Ratios and Calculating Payments or Charges (12/04/2019)

Introduction

This topic provides information lenders need in order to buy up or buy down their guaranty fee, including:

- General Information on Buyups
- General Information on Buydowns
- Accessing Buyup and Buydown Ratios
- Calculating Buyup Payments and Buydown Charges
- Buyup Payment Recapture

General Information on Buyups

Loan level guaranty fee buyups and buydowns allow lenders to pool a wider range of note rates under one MBS coupon. Lenders can buy up guaranty fees, meaning they agree to remit a guaranty fee higher than the contractual fee applicable for the particular servicing option and remittance cycle in return for a one-time payment from Fannie Mae.

Fannie Mae disburses payment for buyups to lenders once a month in a single cash transfer covering all of the lender's mortgages with buyups that were in pools for which securities were issued in the previous month.

General Information on Buydowns

Lenders can buy down or agree to remit a lower guaranty fee than the applicable contract fee in exchange for a one-time, upfront payment to Fannie Mae.

When Fannie Mae drafts the lender's monthly guaranty fee remittances, it also will draft charges for buydowns on pooled loans for which securities were issued in the previous month. Generally, lenders must place buydown funds into a T&I escrow account. If buydown funds (or subsidy payments or other advance payments made by the borrower) are directed for immediate application under the mortgage documents, the lender may deposit these amounts directly into the P&I custodial account.

If a lender holds MBS certificates and the buydown account and its attorneys believe there are tax complications, the lender may deposit the funds in a special account with another institution that meets Fannie

Mae's requirements for custodial depositories. For more information, see Fannie Mae's *Servicing Guide*.

If a lender buys down a guaranty fee but does not service the associated mortgage, Fannie Mae establishes a receivable in the lender's name. The lender must deposit the funds into a designated account in time for Fannie Mae to draft the funds on the seventh calendar day of the month (or the preceding business day if the seventh is a holiday or weekend) following the issue date of the related MBS pool.

Accessing Buyup and Buydown Ratios

Fannie Mae posts guaranty fee buyup/buydown ratios for nearly all mortgage products in a matrix format that enables a lender to find the applicable buyup or buydown ratio for any individual mortgage that it plans to include in an MBS pool by using the gross note rate and remaining term (in months) of the mortgage.

Information concerning guaranty fee buyup or buydown ratios can come from several different sources. For example,

- registered users of PE-MBS can obtain them on the day they are posted by accessing PE-MBS, and
- lenders may request a copy of the posted ratios from their Fannie Mae customer account team.

Refer to Fannie Mae's website for information about the buyup and buydown grids.

Calculating Buyup Payments and Buydown Charges

The total buyup disbursement or buydown charge is calculated as follows:

- multiply the number of basis points by which each mortgage in a given pool was bought up/down (the difference between the "guaranty fee rate before the buyup or buydown" and the "guaranty fee rate after the buyup/buydown") by the "buyup/buydown per basis point" (rounding to three decimal places),
- multiply the rounded product by 0.0001 to convert the basis points to a decimal equivalent, and
- multiply the decimal equivalent by the delivered unpaid principal balance with a guaranty fee rate buyup/buydown.

Do this for all pools that include mortgages with guaranty fee rate buyups/buydowns and settled in the month. The total of the buyups or buydowns for all of the pools will be the amount Fannie Mae collects, disburses, or nets.

Buyup Payment Recapture

With respect to any mortgage loan that pays off within 120 days from the MBS issue date that involved a guaranty fee buyup, Fannie Mae reserves the right to request reimbursement of any or all buyup proceeds paid by Fannie Mae.

For mortgage loans repurchased by a lender, Fannie Mae in its sole discretion may require reimbursement by the lender of any buyup proceeds paid by Fannie Mae in connection with the purchase of the related repurchased mortgage loan without regard to the 120–day limitation.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-09	December 04, 2019

C3-3-03, Buying Up and Buying Down the Guaranty Fee for MBS (05/01/2019)

Introduction

This topic contains information on buying up and buying down the guaranty fee for MBS, including:

- Guaranty Fee Buyup Maximums and Buydown Minimums for Fixed-Rate Mortgages
- Eligibility Requirements for ARM Guaranty Fee Buyups and Buydowns
- Guaranty Fee Buyup Maximums and Buydown Minimums for ARMs

Guaranty Fee Buyup Maximums and Buydown Minimums for Fixed-Rate Mortgages

The guaranty fee cannot be bought up more than 0.25% (25 basis points) nor bought down to a number less than zero.

Eligibility Requirements for ARM Guaranty Fee Buyups and Buydowns

A lender may buy up or buy down the guaranty fee remittance for MBS pools consisting of adjustable-rate mortgages (ARMs) originated under any standard ARM plan, as long as the mortgages meet the following eligibility criteria:

- The guaranty fee rate may be bought up or bought down in increments of 0.0001% (one one-hundredth of a basis point).
- Any buyup or buydown of the guaranty fee remittance rate for adjustable-rate MBS pools must be calculated on the reduced guaranty fee remittance rate that applies to this type of remittance cycle.

Guaranty Fee Buyup Maximums and Buydown Minimums for ARMs

The weighted-average coupon of the pooled mortgages must not exceed the following limits:

- 1.000% (100 basis points) higher than the accrual rate (the pass-through rate) for the pool as of the issue date for mortgages originated under most ARM plans; or
- 0.875% (87.5 basis points for mortgages originated under ARM plans that have initial fixed-rate periods of 3, 5, 7, or 10 years).

The recommended maximum allowable interest rate is 100 basis points (1%) over the minimum allowable interest rate.

Additionally, for all ARM plans, the guaranty fee buyup is limited to 0.25% (25 basis points). The guaranty fee cannot be bought down to a number less than zero.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	**Issue Date**
Announcement SEL-2019-04	May 01, 2019

Chapter C3-4, Pooling Loans into Fixed-Rate MBS

Introduction

Lenders can pool mortgages into one of two types of MBS: fixed-rate MBS and ARM MBS. This chapter provides information on pooling loans into fixed-rate MBS, which includes UMBS.

C3-4-01, Term-Related Fixed-Rate Mortgage Pooling Parameters

(05/01/2019)

Introduction

Fannie Mae issues and specially designates securities backed by either government-insured or government-guaranteed loans or conventional loans. This topic contains information on pooling fixed-rate mortgages (FRM) of various terms, including:

30-year (Long-Term) FRM MBS / UMBS

Each loan in a long-term fixed-rate MBS pool must provide for constant monthly installments payable on a specified day of the month of an amount sufficient to pay interest and amortize the principal amount of the loan within the remaining term.

The loans must:

- have original terms of no less than 181 months and no more than 360 months for both single-issuer pools and Fannie Majors, and
- provide for the reduction of the principal amount of the loan to zero no more than 30 years after the issue date of the related securities.

Loans that provide for interest to be paid in advance may be included in an MBS pool without converting the interest payment to interest in arrears on a loan-by-loan basis.

20–year FRM MBS / UMBS

Fannie Mae issues and specially designates securities that are backed by conventional loans that have loan terms that do not extend for more than 20 years after the origination of the loan. Such securities will have a maturity date no greater than 20 years from their issue date, which represents the date by which all loans backing the pool will have been liquidated from the pool and the securities will have been retired.

The loans must:

- have original terms of no less than 181 months and no more than 240 months for both single-issuer pools and Fannie Majors, and
- provide for the reduction of the principal amount of the loan to zero no more than 20 years after the issue date of the related securities.

15-year (Intermediate-Term) FRM MBS / UMBS

Fannie Mae issues and specially designates securities that are backed by conventional loans that have loan terms that do not extend for more than 15 years after the origination of the loan.

Such securities will have a maturity date no greater than 15 years from their issue date, which represents the date by which all loans backing the pool will have been liquidated from the pool and the securities will have been retired.

The loans must:

- have original terms of no less than 85 months and no more than 180 months for both single-issuer pools and Fannie Majors, and
- provide for the reduction of the principal amount of the loan to zero no more than 15 years after the issue date of the related securities.

10–year FRM MBS / UMBS

Fannie Mae issues and specially designates securities that are backed by conventional loans that have loan terms that do not extend for more than 10 years after the origination of the loan. Such securities will have a maturity date no greater than 10 years from their issue date, which represents the date by which all loans backing the pool will have been liquidated from the pool and the securities will have been retired.

The loans must:

- have original terms of no less than 85 months and no more than 120 months for both single-issuer pools and Fannie Majors, and
- provide for the reduction of the principal amount of the loan to zero no more than 10 years after the issue date of the related securities.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	**Issue Date**
Announcement SEL-2019-04	May 01, 2019

Chapter C3-5, Pooling Loans into ARM MBS

Introduction

There are two primary types of ARM MBS pools with weighted-average coupons, also called ARM Flex pools. Accrual rates for ARM Flex pools may be based on a weighted-average or a fixed MBS margin. This chapter provides information on pooling loans into ARM MBS, including:

C3-5-01, Creating Weighted-Average ARM MBS (08/26/2014)

Introduction

This topic contains information on creating weighted-average ARM MBS (ARM Flex), including

- General Information on Weighted-Average ARM MBS (ARM Flex)
- ARM Flex Pool Accrual Rate Calculation Options

General Information on Weighted-Average ARM MBS (ARM Flex)

ARM Flex pools provide interest accruals at a weighted-average pool accrual rate to the holders of securities backed by the ARMs in the pool. These pools may be delivered only as single pool transactions and different standard ARM plans may not be commingled in the same pool.

The original term of an ARM included in a weighted-average ARM MBS pool must be no more than 30 years. Each mortgage must accrue interest in arrears and have a payment due date of the first day of the month. There is no restriction on the range of first payment due dates, interest rate change dates, and payment change dates.

To limit the effect that prepayments have on the weighted-average pool accrual rate of an ARM Flex, lenders should consider limiting to 1% (100 basis points) the range between the lowest and highest mortgage margins and the lowest and highest mortgage interest rate ceilings of all the mortgages in the pool.

ARM Flex Pool Accrual Rate Calculation Options

Under the ARM Flex pooling structure, lenders may create a weighted-average ARM MBS using either the

- fixed MBS margin or
- weighted-average MBS margin.

The difference between the two margin types is the method used to determine the interest rate that accrues on the pool and the retained servicing fee. The fixed MBS margin option is based on a pool-level MBS margin and a loan-level servicing fee. This means that when the pooled mortgages have different mortgage margins, the servicing fees for the mortgages vary in order to equalize the differences in the mortgage margins. While the guaranty fee remains the same, the servicing spread (the sum of the servicing fee and the guaranty fee and, if applicable the periodic renewal premium for lender-purchased mortgage insurance) differs from mortgage to mortgage.

The fixed MBS margin applies to each mortgage in the weighted-average ARM MBS; therefore, the lowest mortgage margin in the pool must be able to, at least, support the sum of the MBS margin, the guaranty fee, and the minimum allowable servicing fee. The periodic renewal premium for lender-purchased mortgage insurance must also be included, if applicable.

The weighted-average MBS margin option is based on a pool-level servicing fee and a loan-level MBS margin, which means that when the mortgages in the pool have different mortgage margins, the servicing spread will be equal for all the mortgages, but the MBS margin will vary from mortgage to mortgage.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

C3-5-02, Calculating the Weighted-Average Pool Accrual Rates for ARM Flex Pools Using a Fixed MBS Margin (04/01/2009)

Introduction

This topic contains information on calculating the weighted-average pool accrual rates for ARM Flex pools using a fixed MBS margin.

How to Determine the Weighted-Average Pool Accrual Rate(s) for ARM Flex Pools Using a Fixed MBS Margin (based on Pool-Level MBS Margin and Loan-Level Servicing Fee)

In the following example, assume that the lender wants to place the following three ARM Plan 57 ARMs into a weighted-average ARM Flex MBS pool with a standard remittance cycle. All of the mortgages in the pool will be serviced under the special servicing option and will have a guaranty fee of 0.35%. All of the mortgages have borrower-purchased mortgage insurance.

Category	Loan A	Loan B	Loan C
Mortgage Interest Rate	9.00%	9.50%	10.00%
Mortgage Margin	2.25%	2.50%	2.50%
Mortgage Ceiling	15.00%	15.50%	16.00%
UPB	$70,000	$50,000	$60,000
Interest Rate Change Date	1–Jun	1–Jul	1–Aug

To develop a fixed MBS margin, the lender must first derive a loan-level servicing fee by reducing the mortgage margin for each mortgage to be included in the pool by the desired fixed MBS margin and then by the applicable guaranty fee percentage and, if applicable, by the periodic renewal premium for lender-purchased mortgage insurance. The differences in the servicing fees for the mortgages in the pool will be exactly equal to the differences in their mortgage margins. The weighted-average pool accrual rate is then determined by first reducing each individual mortgage interest rate by the servicing spread for the mortgage (the sum of the guaranty fee and the calculated loan-level servicing fee and, if applicable, the periodic renewal premium for lender-purchased mortgage insurance) and then developing a weighted-average of the net mortgage interest rates. This same procedure also is used to establish the maximum weighted-average pool accrual rate (and any applicable minimum weighted-average pool accrual rate), using the weighted-average of the net mortgage interest rate ceilings (or floors) of the mortgages in the pool.

Step One:

Determine the loan-level servicing fee, using a 1.50% pool-level MBS margin.

Category	Loan A	Loan B	Loan C
Mortgage Margin	2.25%	2.50%	2.75%
MBS Margin	1.50%	1.50%	1.50%
Guaranty Fee	0.35%	0.35%	0.35%
Servicing Fee	0.40%	0.65%	0.90%

Step Two:

Determine the net mortgage interest rate.

Category	Loan A	Loan B	Loan C
Mortgage Interest Rate	9.00%	9.50%	10.00%
Guaranty Fee	0.35%	0.35%	0.35%
Servicing Fee	0.40%	0.65%	0.90%
Net Mortgage Interest Rate	8.25%	8.50%	8.75%

Step Three:

Determine the weighted-average pool accrual rate.

Loan ID	Net Mortgage Interest Rate	UPB	Product
Loan A	8.25%	$70,000	5,775.00
Loan B	8.50%	$50,000	4,250.00
Loan C	8.75%	$60,000	5,250.00
		$180,000	15,275.00

15,275/180,000 = 8.486%, rounded to three decimal places.

Step Four:

Determine the net mortgage interest rate ceiling.

Category	Loan A	Loan B	Loan C
Mortgage Interest Rate Ceiling	15.00%	15.50%	16.00%

Category	Loan A	Loan B	Loan C
Guaranty Fee	0.35%	0.35%	0.35%
Servicing Fee	0.40%	0.65%	0.90%
Net Mortgage Interest Rate Ceiling	14.25%	14.50%	14.75%

Step Five:

Determine the maximum weighted-average pool accrual rate.

Loan ID	Net Mortgage Interest Rate	UPB	Product
Loan A	14.25%	$70,000	9,975.00
Loan B	14.50%	$50,000	7,250.00
Loan C	14.75%	$60,000	8,850.00
		$180,000	26,075.00

26,075.00/180,0000 = 14.486%, rounded to three decimal places.

Step Six:

Determine the minimum weighted-average pool accrual rate (if the mortgages have an interest rate floor). Since the mortgages in this example do not have an interest rate floor, this step is not necessary. It is shown for illustration purposes only.

First, find the net mortgage interest rate floor by following Step Four, substituting the mortgage interest rate floor for the ceiling.

Then, follow Step Five to find the minimum weighted-average pool accrual rate, using the net mortgage interest rate floor just calculated for each mortgage instead of the mortgage interest rate ceilings.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

C3-5-03, Calculating the Weighted-Average Pool Accrual Rates for ARM Flex Pools Using a Weighted-Average MBS Margin (04/01/2009)

Introduction

This topic contains information on calculating the weighted-average pool accrual rates for ARM flex pools using a weighted-average MBS margin.

How to Determine the Weighted-Average Pool Accrual Rate(s) for ARM Flex Pools Using a Weighted-Average MBS Margin (based on Pool-Level Servicing Fee and Loan-Level MBS Margin)

In the following example, assume that the lender wants to place the following three ARM Plan 57 ARMs into a weighted-average ARM Flex MBS pool with a standard remittance cycle. All of the mortgages in the pool will be serviced under the special servicing option and will have a guaranty fee of 0.35%. All of the mortgages have borrower-purchased mortgage insurance.

Category	Loan A	Loan B	Loan C
Mortgage Interest Rate	9.00%	9.50%	10.00%
Mortgage Margin	2.25%	2.50%	2.50%
Mortgage Ceiling	15.00%	15.50%	16.00%
UPB	$70,000	$50,000	$60,000
Interest Rate Change Date	1–Jun	1–Jul	1–Aug

To develop a weighted-average MBS margin, the lender must reduce the mortgage margin for each mortgage to be included in the pool by the applicable guaranty fee percentage and then by the desired fixed servicing fee (and, if applicable, by the periodic renewal premium for lender-purchased mortgage insurance) to arrive at a loan-level MBS margin. The difference between the MBS margins for the mortgages in the pool will be exactly equal to the differences in their mortgage margins. The weighted-average pool accrual rate is then determined by first reducing each individual mortgage interest rate by the servicing spread for the mortgage (the sum of the guaranty fee and the desired servicing fee and, if applicable, the periodic renewal premium for lender-purchased mortgage insurance) and then developing a weighted-average of the net mortgage interest rates. This same procedure also is used to establish the maximum weighted-average pool accrual rate (and any applicable minimum weighted-average pool accrual rate), using the weighted-average of the net mortgage interest rate ceilings (or floors) of the mortgages in the pool.

Step One:

Determine the loan-level MBS margin, using a 0.250% standard servicing fee.

(This step is not necessary. It is included for informational purposes only.)

Category	Loan A	Loan B	Loan C
Mortgage Margin	2.250%	2.500%	2.750%
–Guaranty Fee	0.350%	0.350%	0.350%
–Servicing Fee	0.250%	0.250%	0.250%
MBS Margin	1.650%	1.900%	2.150%

Step 2:

Determine the net mortgage interest rate.

Category	Loan A	Loan B	Loan C
Mortgage Interest Rate	9.000%	9.500%	10.000%
Guaranty Fee	0.350%	0.350%	0.350%
Servicing Fee	0.250%	0.250%	0.250%
Net Mortgage Interest Rate	8.400%	8.900%	9.400%

Step 3:

Determine the weighted-average pool accrual rate.

Loan ID	Net Mortgage Interest Rate	UPB	Product
Loan A	8.400%	$70,000	5,880.00
Loan B	8.900%	$50,000	4,440.00
Loan C	9.400%	$60,000	5,640.00
		$180,000	15,970.00

15,970/180,000 = 8.872%, rounded to three decimal places.

Step Four:

Determine the net mortgage interest rate ceiling.

Category	Loan A	Loan B	Loan C
Mortgage Interest Rate Ceiling	15.000%	15.500%	16.000%
–Guaranty Fee	0.350%	0.350%	0.350%
–Servicing Fee	0.250%	0.250%	0.250%
Net Mortgage Interest Rate Ceiling	14.400	14.900%	15.400%

Step Five:

Determine the maximum weighted-average pool accrual rate.

Loan ID	Net Mortgage Interest Rate Ceiling	UPB	Product
Loan A	14.400%	$70,000	10,080.00
Loan B	14.900%	$50,000	7,450.00
Loan C	15.400%	$60,000	9,240.00

Loan ID	Net Mortgage Interest Rate Ceiling	UPB	Product
		$180,000	26,770.00

26,770.00/180,000 = 14.872%, rounded to three decimal places.

Step Six:

Determine the minimum weighted-average pool accrual rate (if the mortgages have an interest rate floor). Since the mortgages in this example do not have an interest rate floor, this step is not necessary. It is shown for illustration purposes only.

First, find the net mortgage interest rate floor by following Step Four, substituting the mortgage interest rate floor for the ceiling.

Then, follow Step Five to find the minimum weighted-average pool accrual rate, using the net mortgage interest rate floor just calculated for each mortgage instead of the mortgage interest rate ceilings.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

C3-5-04, Pooling ARMs with a Conversion Option (05/01/2019)

Introduction

This topic provides information on pooling ARMs with conversion options, including

- ARM Conversion Options
- Redelivering a Converted ARM that Originally Required Recourse or Credit Enhancement

ARM Conversion Options

If a borrower chooses to convert an adjustable-rate mortgage that includes an option to convert to a fixed-rate mortgage, the lender must repurchase the mortgage from the MBS pool before interest begins accruing at the new fixed rate. Lenders may choose from two options for disposing of the converted mortgage after it has been repurchased from the pool:

- take-out option

- market rate option

If the take-out post-conversion option was selected when the convertible ARM was delivered, the servicer must redeliver the converted mortgage to Fannie Mae as a whole loan or as part of a fixed-rate MBS (A/A remittance type only).

The take-out option is not available on mortgages that have lender-purchased mortgage insurance or were originated under an ARM plan that permits conversion to a fixed interest rate only on specified interest rate adjustment dates.

The conversion option selected for each convertible ARM delivered to Fannie Mae must be identified by the appropriate special feature code:

- SFC 037 Convertible ARM — Take-Out Option, or
- SFC 038 Convertible ARM — Market Rate Option.

In order to receive a par price on a redelivered converted mortgage, the lender must obtain a take-out mandatory delivery commitment (Converted ARM Resale Commitment) by the 16th day of the month in which the conversion was requested.

If the market rate option was chosen, the servicer is not required to redeliver the mortgage to Fannie Mae, although it may choose to redeliver the mortgage as a whole loan (A/A, S/A or S/S remittance types) or as part of a fixed-rate MBS. It may deliver the loan under any existing standard fixed-rate whole loan or MBS commitment that it has outstanding, as long as Fannie Mae’s original acceptance of the mortgage was not conditional on the lender providing some type of special recourse or credit enhancement.

Redelivering a Converted ARM that Originally Required Recourse or Credit Enhancement

If Fannie Mae originally required recourse or credit enhancement on an ARM that includes an option to convert to a fixed-rate mortgage, and the conditions that led to its requirement still exist, then lenders will not be able to use a standard commitment to redeliver the converted mortgage to Fannie Mae. Instead, lenders must

- obtain a new negotiated contract (which may or may not require recourse or credit enhancement) or
- include the converted mortgage as part of a delivery under an outstanding negotiated contract that has acceptable recourse or credit enhancement.

If the conditions that led to Fannie Mae requiring recourse or credit enhancement no longer exist, and Fannie Mae determines that the recourse or credit enhancement is no longer necessary, lenders may redeliver the converted mortgage under

- a standard whole loan commitment, or
- a standard MBS commitment.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-04	May 01, 2019

C3-5-05, Commingling ARMs in MBS (02/23/2016)

Introduction

This topic provides information on commingling ARMs, including:

- ARM Loan Types Lenders May Commingle in the Same Pool
- ARM Loan Types Lenders May Not Commingle in the Same Pool

ARM Loan Types Lenders May Commingle in the Same Pool

ARMs originated under the same ARM plan may have original terms up to 30 years and may be commingled in the same ARM pool.

ARM Loan Types Lenders May Not Commingle in the Same Pool

ARMs originated under different ARM plans cannot be commingled in the same pool. In certain cases, however, lenders may be permitted to pool seasoned ARMs in ARM plans with shorter initial fixed-rate periods. Interested lenders should contact their Fannie Mae customer account team to determine what flexibility may be available for a specific situation.

ARMs originated under a single ARM plan, but with different post-conversion disposition options (market rate option or take-out option) cannot be included in the same pool.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Chapter C3-6, Pooling Loans into Fannie Majors

Introduction

Lenders can pool mortgages into two types of MBS, which includes UMBS: Single-Issuer and Fannie Majors. This chapter provides information on pooling loans into Fannie Majors.

C3-6-01, Parameters for Pooling Loans Into Fannie Majors (12/04/2019)

Introduction

This topic contains general parameters for pooling loans into Fannie Majors, including:

- Fannie Majors Overview
- Obtaining Fannie Majors Pool Numbers
- Selecting Mortgages to Include in a Fannie Majors Pool
- Selecting a Settlement Date and Security Issuance
- Making Multiple Submissions

Fannie Majors Overview

Fannie Majors are pools of loans that are contributed by more than one lender. Lenders participating in a Fannie Majors pool receive an MBS representing its share of the pool in proportion to the dollar amount of mortgages it contributed to the pool.

Obtaining Fannie Majors Pool Numbers

The pool number identifies the pools in which a lender's loans are included. Fannie Mae assigns Fannie Majors pool numbers based on loan term, pass-through rate, and the month of issuance. Pool numbers, CUSIP numbers, and pass-through rates are posted on the Fannie Majors page on Fannie Mae's website and on the various wire services.

Selecting Mortgages to Include in a Fannie Majors Pool

When deciding which mortgages to include in a Fannie Majors pool, lenders must make sure that:

- the mortgage conforms to the appropriate product type,
- the mortgage has the appropriate seasoning,
- the note rate is within the minimum and maximum range in relation to the pass-through rate, and
- the minimum submission size is satisfied.

To be eligible for a Fannie Majors pool, mortgages may be no older than 11 months as of the security issue date. For example, all loans to be included in a December 2019 pool, must have first payment dates on or after January 2019.

As with single-lender, fixed-rate MBS pools, the minimum and maximum allowable interest rate within a Fannie Majors pool is 25 basis points (.25%) and 112.5 basis points (1.125%) respectively above the pool's pass-through rate. Lenders can use loan-level buyups and buydowns to eliminate excess servicing and, in the case of buydowns, include loans in a higher coupon.

Fannie Majors have a minimum submission requirement of $1,000 when lenders deliver the loan to Fannie Mae.

Selecting a Settlement Date and Security Issuance

Lenders may choose their own settlement date for a Fannie Majors pool. If a lender makes several submissions into the same Fannie Majors pool, it may select different settlement dates for each.

Fannie Mae can issue securities in book-entry form within three business days after the lender submits a complete, error-free pool documentation package via Loan Delivery, as long as Fannie Mae receives:

- the lender's transmission of the loan delivery data by 6:00 p.m. (Eastern time), and
- the transmission of the document custodian's pool certification by 10:30 a.m. (Eastern time) on the day following the lender's Loan Delivery transmission.

See C3-7-06, Settling the Trade, for additional information on turnaround times.

A lender delivering into Fannie Majors receives securities rounded to the lowest whole dollar amount of the loans it contributed to the pool, unless it requests otherwise. Fannie Mae issues certificates in minimum denominations of $1,000 with additional increments of one dollar. Only one security denomination can be issued for each account.

Making Multiple Submissions

A lender may deliver several different pieces for inclusion in a multiple pool (Fannie Majors) as long as all of the pieces have the same remittance cycle. This means that delivery of multiple servicer numbers per seller number is permitted in a Fannie Majors pool; however each piece must have one seller/servicer combination. In addition, each piece must be submitted separately and must meet the $1,000 minimum submission requirement.

Fannie Mae will combine the submissions with the same branch seller/servicer number and remittance day into the same pool under the same lender. These loans must be serviced as one pool after issuance. The dollar amount of the lender's securities will be equal to the sum of the issue date principal balances of all the mortgages from each of the lender's pool documentation packages related to the multiple pool, rounded down to the next lowest whole dollar amount.

Lenders may deliver nonstandard loans into Fannie Majors MBS pools. Each discrete delivery the lender makes under a given Fannie Majors TBA–eligible UMBS pool will be subject to the limitations that apply to a single TBA–eligible UMBS pool. See C3-2-01, Determining Eligibility for Loans Pooled into MBS for additional information.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcement	Issue Date
Announcement SEL-2019-09	December 04, 2019
Announcement SEL-2019-04	May 01, 2019
Announcement SEL-2019-03	April 03, 2019

Chapter C3-7, Delivering and Trading MBS

Introduction

Lenders that sell their MBS rather than hold them as an investment may work with Fannie Mae's Capital Markets Pricing and Sales Desk to obtain a competitive price. In this chapter, the steps entailed in delivering and trading MBS and the requirements associated with these processes are provided.

C3-7-01, Establishing an MBS Trading Account (10/06/2021)

Introduction

This topic provides information on establishing an MBS trading account, including:

- Process Used to Establish a Trading Account
- Requirements and Terms Governing the Trading Account

Process Used to Establish a Trading Account

The table below describes the stages to establish a trading account.

Stage	Description
1	To establish a trading account, the lender may call the Capital Markets Pricing and Sales Desk. See E-1-02, List of Contacts.
2	Each lender must provide the following information: • either a corporate resolution from its board of directors or an officer's certificate to indicate its authority to establish a trading account with the Capital Markets Pricing and Sales Desk; and • the names of the designated individuals who will be authorized to sell securities to, or to buy them from, the Capital Markets Pricing and Sales Desk and the limit of their authority (if any).
3	Each lender must provide an address that can be used for all official notices and communications sent to the lender, and wiring instructions for the different types of payments Fannie Mae makes to the lender.
4	The lender must continue to provide updates about any changes to its authority to perform under the trading account, the individuals authorized to transact business with the Capital Markets Pricing and Sales Desk (or their limits of authority), and the lender's address or wiring instructions.

Requirements and Terms Governing the Trading Account

A lender's trading account is governed by the terms of its *Mortgage Selling and Servicing Contract* (MSSC), the provisions of this Guide and any special instructions provided for in a specific trade confirmation or settlement notice.

By initiating trade activity with the Capital Markets Pricing and Sales Desk, lenders agree to adhere to Fannie

Mae's guidelines for selling securities and to SIFMA's *Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities and Other Related Securities*, including any amendments to either. Should there be a conflict between the requirements in this Guide and the SIFMA provisions, the requirements of this Guide take precedence.

As security for payment of its obligations and liabilities under its trading account, the lender grants Fannie Mae a first priority security interest in any and all of its right, title, and interest in its securities, money, or other property that is held for (or by) Fannie Mae.

If appropriate authorities require the filing of a financing statement to evidence this security interest, the lender must execute and deliver any legal instruments required to protect or perfect Fannie Mae's security interest.

Terms and Conditions Governing Use of the Electronic Trading Platform

By accessing Fannie Mae's electronic trading platform, currently known as the MBS Trading Portal, the lender agrees that the platform will be a "Licensed Application," as defined in the Software Subscription Agreement General Terms and Conditions. See the Consolidated Technology Guide. The lender also agrees that it is subject to the General Terms and Conditions, and that the following additional terms apply.

Authorized User For purposes of the electronic trading platform, the term "Authorized User" includes individuals:

- working for Third-Party Providers retained by the lender to perform mortgage-related services requiring access to the Licensed Application on the lender's behalf or third-party originators (such as mortgage brokers or correspondents that are affiliated with lender) that require access to the Licensed Application; and
- who have obtained Authentication Credentials as a result of the lender's actions.

The lender agrees that actions of Authorized Users are deemed to be actions of the lender.

Evidence of a Trade The Licensed Application's confirmation of a trade as "Accepted," together with the *Selling Guide and any applicable MBS trading agreement between lender and Fannie Mae, the conclusive evidence of a trade and the terms between Fannie Mae and lender with respect to the trade described in the confirmation.*

Indicative Pricing If indicative pricing is displayed to the lender, the lender acknowledges and understands that such pricing is not the actual pricing and is subject to increase or decrease prior to acceptance of the trade.

Termination of Relationships Fannie Mae reserves the right to immediately suspend or terminate any relationship established between a lender and a third party by and for the Licensed Application at any time, in its sole discretion.

Establishment of Trading Limits and Margin Requirements

When Fannie Mae establishes a trading account for a lender, it may establish trading limits, margin requirements, a designated threshold amount, and a minimum transfer amount specific to a lender.

After a trading account is established for a lender, Fannie Mae may:

- amend or cancel any trading limits, margin requirements, designated threshold amounts, or minimum transfer amounts initially imposed on a lender's trading accounts; and
- decline to engage in any specific transaction with the lender.

Offsetting Price Differentials

Subject to the applicable designated threshold amount and minimum transfer amount (defined below), a lender and Fannie Mae may elect to exchange variation margin if there is a price differential on the lender's open (unsettled) trades with Fannie Mae.

A price differential exists if, at any time, with respect to a lender's open trades with the Capital Markets Pricing and Sales Desk, either party would incur a loss if it canceled the open trades and entered into replacement transactions (i.e., there is a difference between the current market price and the settlement price of the open trades). If a price differential exists, the party that would receive positive income from the cancellation of the open trades and entry into replacement transactions is "in the money," and the party that would incur a cost from the cancellation of the open trades and entry into replacement transactions is "out of the money."

- If there is *a negative price* differential for a lender's open trades with the Capital Markets Pricing and Sales Desk (i.e., on any trading day, the lender is "out of the money" with regard to the securities it has contracted to purchase or sell to Fannie Mae), then Fannie Mae may request that the lender wire cash to Fannie Mae, subject to the lender's designated threshold amount and minimum transfer amount.
- If there is *a positive price* differential for a lender's open trades with the Capital Markets Pricing and Sales Desk (i.e., on any trading day, the lender is "in the money" with regard to the securities the lender has contracted to purchase or sell to Fannie Mae), then the lender may request that Fannie Mae wire cash to the lender, subject to Fannie Mae's designated threshold amount and minimum transfer amount.

When calculating the price differential:

- any open trades between the lender and the Capital Markets Pricing and Sales Desk will be disregarded if they have been assigned, submitted, transferred, or reported to a securities clearing organization (e.g., the Fixed Income Clearing Corporation) for clearing, netting, and/or settlement such that the open trade will be factored into the applicable margin requirements of such securities clearing organization; and
- any outstanding pair-off fees relating to trades between the lender and the Capital Markets Pricing and Sales Desk will be factored into the calculation of the price differential.

Designated Threshold Amount and Minimum Transfer Amount

The designated threshold amount represents a level of unsecured exposure an "in the money" party will accept before making a margin call on the "out of the money" party. Fannie Mae's designated threshold amount and a lender's designated threshold amount shall each be $3,000,000, unless otherwise agreed to by the parties in writing and/or subject to the occurrence of a triggering event as discussed below.

Example

If there is a positive price differential and a lender is in the money by $3,100,000, the lender may make a margin call to Fannie Mae for $100,000. ($3,100,000 – Fannie Mae's designated threshold amount of

$3,000,000).

A minimum transfer is a specified amount of money that must be exceeded before a margin call can be made. Fannie Mae's minimum transfer amount and a lender's minimum transfer amount shall each be $50,000, unless otherwise agreed to by the parties in writing and/or subject to the occurrence of a triggering event as discussed below.

Notwithstanding the foregoing, Fannie Mae will not wire cash to a lender in the event of a positive price differential if any of the following "triggering events" has occurred with respect to a lender:

- an event of default under the Lender Contract or any other contract between Fannie Mae and the lender,
- the lender's failure to meet any of the lender eligibility requirements set forth in Subpart A-4, Maintaining Lender Eligibility,
- a decline in a lender's adjusted net worth by more than 20% over a quarterly reporting period or by more than 30% over two consecutive quarterly periods,
- the total unpaid principal balance of all outstanding Fannie Mae repurchase requests to a lender exceeds 15% of the lender's adjusted net worth,
- Fannie Mae comes into possession of information that, in Fannie Mae's reasonable discretion, could result in an adverse impact, either presently or in the future, on the lender's counterparty relationship with Fannie Mae or the lender's financial condition, or
- outstanding contractual fees owed by a lender to Fannie Mae.

Further, upon occurrence of a triggering event for a lender, Fannie Mae, in its sole and absolute discretion, may modify or eliminate the designated threshold amount and minimum transfer amount applicable to such lender without prior notice to the lender.

Default of Lender Under the Terms of Trading Account

Under the terms of the trading account, certain events could result in the lender being in default. A lender is in default if Fannie Mae determines, at any time, that any of the representations that were made regarding the lender's ability (or that of a designated authorized individual) to transact business is incorrect or untrue in any material respect, or if the lender:

- initiates a case or proceeding (or has a suit brought against it) under any bankruptcy, insolvency, reorganization, liquidation, dissolution, or similar law;
- seeks the appointment of a receiver, trustee, custodian, or similar official for itself or any substantial part of its property;
- executes a general assignment for the benefit of its creditors;
- admits in writing that it does not have the ability to pay its debts as they come due;
- is subject to an outstanding, uncontested order of relief or a protective decree issued under the Securities Investor Protection Act; or
- fails to perform as required. Instances of nonperformance that constitute a default include the failure to:
    - perform any of the obligations set out in a confirmation or settlement notice;

- perform any obligations with respect to completing a trade (or the admission that it is unable or unwilling to do so);
- perform obligations under any other agreement or contract it has with Fannie Mae;
- if notice is sent by Fannie Mae by 10:00 a.m. on a business day, satisfy the price differential on lender's trades with the Capital Markets Pricing and Sales Desk by the close of business on that same business day; or
- if notice is sent by Fannie Mae after 10:00 a.m. on a business day, satisfy the price differential on lender's trades with the Capital Markets Pricing and Sales Desk by 12:00 noon on the next business day.

Consequences of a Default

A default with respect to one transaction will constitute a default for all of the lender's transactions with the Capital Markets Pricing and Sales Desk. See E-1-02, List of Contacts.

The lender's payments, deliveries, and transfers for one transaction may be applied ("netted") against the lender's other transactions.

Fannie Mae also may treat a default under the lender's trading account as a default under the lender's MSSC.

When that is the case, the provisions for "termination (of a selling or servicing arrangement or the contract) for cause" that are set out in A2-3.1-01, Lender Breach of Contract, will apply.

Remedies for the Default of a Lender's Trading Account

The lender will be liable for any losses incurred by Fannie Mae due to the lender's default with the Capital Markets Pricing and Sales Desk. See E-1-02, List of Contacts. The following table details the remedies that are available to Fannie Mae when it declares a lender to be in default under its trading account.

If ...	Then ...
Fannie Mae declares a lender to be in default under its trading account,	Fannie Mae may require that the settlement for all of the lender's outstanding transactions be accelerated and take place immediately. In addition, Fannie Mae shall have all rights and remedies of a secured party under the Uniform Commercial Code and any other rights available under applicable law.

If ...	Then ...
The lender was committed to buy securities from the Capital Markets Pricing and Sales Desk,	Fannie Mae may sell the securities at the current market value (or, as an alternative, give the lender credit for the current market value as if a sale had taken place). The lender will then be liable for any losses incurred by Fannie Mae that occur because the current market value is less than the purchase price the lender would have paid had the securities been transferred to it.
The lender was committed to sell securities to the Capital Markets Pricing and Sales Desk,	Fannie Mae may purchase securities of the same class and amount as those the lender was committed to sell at the current market value (or, as an alternative, deem itself to have purchased the comparable securities for the purpose of determining the lender's liability). The lender will then be liable for any losses incurred by Fannie Mae that occur because the current market value is greater than the purchase price Fannie Mae would have paid had the lender transferred the securities to the Capital Markets Pricing and Sales Desk.

In addition, the lender must pay:

- all reasonable legal and other expenses Fannie Mae incurs in connection with, or as the result of, the lender's default under its trading account, and
- interest on the Fannie Mae losses and expenses for which the lender is liable from the date of default to the date the lender reimburses Fannie Mae.

> **Note**: The interest charged will be based upon the prime rate for commercial banks that is published in *The Wall Street Journal*.

If necessary, Fannie Mae may liquidate and apply against the obligations the lender owes as the result of its default, any and all of the lender's securities, money, and other property that is held for (or by) Fannie Mae.

Suitability and Risk of Loss

The risk of loss when transacting with the Capital Market Pricing and Sales Desk can be substantial. A lender should carefully consider whether a transaction is suitable in light of its financial condition, its investment objectives, and any legal or regulatory restrictions to which it may be subject. The market value for the securities to be purchased or sold by a lender can vary substantially over the term of a transaction. A lender should carefully consider if it has the operational resources in place to monitor the risks and contractual obligations of a transaction, including the risk that Fannie Mae may request that a lender post margin to satisfy a price differential on the same or the following business day.

By agreeing to a confirmation, the lender is deemed to have represented and warranted that it understands the risks associated with the transaction with the Capital Market Pricing and Sales Desk, and the lender believes that the transaction is suitable for the lender. Similarly, to the extent that the lender assigns or transfers any of its rights and obligations under any transaction, the lender shall be deemed to represent and warrant as of the date of such assignment that the lender has reasonable grounds to believe that any such assigned transaction is a suitable transaction for the assignee. Fannie Mae and the lender agree that, if any rights and obligations are so assigned by the lender, notwithstanding any consent to such assignment by Fannie Mae, Fannie Mae shall have no obligation to undertake an evaluation of the suitability of the assigned rights and obligations to the assignee.

Before engaging in any transactions with the Capital Market Pricing and Sales Desk, a lender should consult its own business, legal, tax, risk, accounting, and other advisers and examine the provisions in this Chapter of the Guide to determine whether the risks to the lender are appropriate.

Transactional Intent of the Lender and Fannie Mae

The lender acknowledges, at all times, that Fannie Mae is not acting as a fiduciary or an advisor with respect to any transaction with the Capital Markets Pricing and Sales Desk.

The lender and Fannie Mae also agree that transactions between the lender and the Capital Market Pricing and Sales Desk are intended to be:

- ”forward contracts,” “securities contracts, ” and “master netting agreements,” as such terms are defined in the United States Bankruptcy Code, as amended, and of a type set forth in Section 5390(c)(8)(D) or Title 12, as amended;
- “qualified financial contracts,” if the lender is an “insured depository institution” under the Federal Deposit Insurance Act, as amended; and
- a “netting contract” as defined in and subject to Title IV of the Federal Deposit Insurance Corporation Improvement Act of 1991, as amended, and each payment entitlement and payment obligation under any transaction shall constitute a “covered contractual payment entitlement” or “covered contractual payment obligation, respectively, as such terms are defined in such Act.

The lender and Fannie Mae also agree that either party’s rights to cancel a transaction or exercise any other remedies upon a default is a contractual right to liquidate such transaction as described in Section 555 and 556 of the United States Bankruptcy Code, as amended, and a right to terminate, liquidate, or accelerate as described in Sections 5390(c)(8)(A) and (C) of Title 12 of the United States Code, as amended.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-09	October 06, 2021
Announcement SEL-2019-09	December 04, 2019

C3-7-02, Initiating an MBS Sale (07/07/2021)

Introduction

This topic describes the steps lenders take to initiate an MBS, including UMBS, sale via Fannie Mae's Capital Markets Pricing and Sales Desk, including:

- Determining the Trade Type
- Checking Market Prices
- Selecting a Settlement Date
- Selecting a Settlement Method
- Requesting and Accepting a Firm Bid/Offer

Determining the Trade Type

If a lender sells MBS, its trade may be TBA or specified. With a TBA trade, the lender may deliver any UMBS meeting eligibility requirements as defined by SIFMA. A specified trade means that a specific MBS is being traded and only that security can be delivered in satisfaction of the trade. TBA trades settle on the SIFMA settlement dates (see Pool Settlement Dates).

Checking Market Prices

See C3-1-01, General Information About Fannie Mae's MBS Program, for information on MBS prices and their determinants. Prices of Fannie Mae MBS are quoted in 32nds of a percent for both immediate and forward delivery issues.

Selecting a Settlement Date

The lender must plan its settlement date to be sure it can deliver the securities as scheduled. In particular, the lender must allow sufficient time after loan closing for the processing of the documentation package. Any errors in the package can result in a delay in settlement.

Lenders may settle trades for newly issued securities on any day of the month in which they are issued. When a trade is settled on a “regular” settlement date, it will occur on a date that is predetermined by SIFMA, based on a schedule that changes periodically.

> **Note:** Settlements cannot occur on holidays.

Selecting a Settlement Method

The method of funding the sale of a security depends on the settlement method the lender chooses when delivering the pool to Fannie Mae. Lenders that want to use an early funding settlement option such as As Soon As Pooled Sale (for pools) or As Soon As Pooled Plus (for whole loans) must execute a special agreement that provides the specific terms for the type of transaction it is using. Lenders interested in using an early funding settlement option should contact the Capital Market Sales Desk. See E-1-02, List of Contacts.

For newly issued securities, if a lender opts for an “original issue” settlement instead of “delivery vs. payment,” lenders must specify Fannie Mae’s account in the wiring instructions on the *Delivery Schedule* (Form 2014) it submits when the pool is delivered. Lenders using this option must follow SIFMA’s guidelines and submit notification 48 hours prior to settlement.

Existing MBS must be funded through “delivery vs. payment” (or a “delivery against funds” or “existing issue”) settlement option. Under this settlement option, when Fannie Mae receives the security, it credits the lender’s account at the institution that wires the security to the Desk.

If a lender has not sold the securities to an investor before it delivers loans to Fannie Mae and has not elected to use the “original issue” settlement option, Fannie Mae will issue the securities to the lender.

Requesting and Accepting a Firm Bid/Offer

When contacting the Desk to request a firm bid/offer, the lender must be prepared to specify the following information:

- MBS product,
- amount of the trade,
- coupon rate,
- settlement date,
- unique characteristics of the pool that will back the security.

Fannie Mae’s Sales Desk will convey a bid/offer for the security to the lender. If the lender accepts the firm bid or firm offer, the Sales Desk will lock in the bid or offer and verify the trade details in a recorded telephone conversation with the lender.

That evening, Fannie Mae will send the lender a written confirmation statement that includes the details of the trade such as the trade number, date, amount, price, the coupon rate, and the settlement date. The confirmation, taken together with the relevant sections of this Guide, constitutes conclusive evidence of the terms between Fannie Mae and the lender for the respective trade, unless the lender notifies the Operations team of any errors in the confirmation by close of trading on the next trading day. Lenders will be responsible for any resulting economic differences from a trade if they fail to notify Fannie Mae of any errors in the confirmation within the specified window.

> **Note:** For lenders executing trades with Fannie Mae via Fannie Mae's electronic trading platform, the lender's trade details for the bid or offer will be available through the platform using appropriate login credentials.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-06	July 07, 2021
Announcement SEL-2019-04	May 01, 2019

C3-7-03, Making Good Delivery (05/01/2019)

Introduction

This topic describes the requirements for making good delivery of MBS, (which includes UMBS), including:

- Good Delivery Conditions
- Principal Amount of the Trade
- Accrued Interest
- Maximum Number of Pools and Minimum Delivery Amounts
- Pairing Off

Good Delivery Conditions

Acceptance of a firm bid to sell MBS to the Desk is an enforceable obligation that requires the lender to deliver the security at the parameters agreed upon at the time of the trade and in amount that meets the minimum trade requirements for the commitment. When a lender meets this obligation, it has made good delivery.

However, a good delivery for Fannie Mae's purposes and a good delivery that satisfies SIFMA's guidelines for a

TBA trade are not always the same. The guidelines that determine whether a lender has or has not made good delivery for a TBA trade include the following:

- The delivery of a single-lender MBS under a firm bid that specified a Fannie Majors multiple-lender MBS does not constitute good delivery for that trade. The delivery of a Fannie Majors UMBS, however, will be considered good delivery for a TBA trade under any firm bid, even if the lender did not specify that the trade would include a Fannie Majors UMBS.
- The delivery of a 30-year term UMBS against a TBA trade that specifies a 30-year UMBS will not be considered as a good delivery unless the final maturity date of the security was greater than 181 months when the security was issued.
- The delivery of an MBS backed by pools that are comprised of more than 10% of any single type of nonstandard loan or more than 15% of any combination of nonstandard loans is not considered a good delivery for a TBA trade. See C3-2-01, Determining Eligibility for Loans Pooled into MBS for additional information about pooling nonstandard loans.

Failure to effect a good delivery of a security for a TBA trade can severely limit a lender's ability to deal with the Desk and could result in Fannie Mae declaring the lender to be in default. See C3-7-01, Establishing an MBS Trading Account, for more details.

See C3-7-04, Delivering MBS Pool Data and Documents, for specifics on the data and documents required in order to make good delivery.

Principal Amount of the Trade

The maximum difference between the principal balance the lender committed to deliver and the amount actually delivered can be plus or minus 0.01% of the trade amount for a TBA trade. If multiple trades are executed against a single pool transmission, the delivery variance applies to each trade.

Lenders that need a higher or lower variance in some situations should contact the Capital Markets Pricing and Sales Desk to negotiate an alternative variance. Lenders should note, however, that trades that have variances outside of SIFMA's tolerances will not be eligible for TBA trades. Also, no variance is allowed for transactions in which the seller provides the buyer with a pool number and specific original face amount on the date the two parties agree to enter into the transaction. For funding purposes, the principal amount is calculated as follows:

a = d x b, where
a = net principal
d = current balance of the security
b = price (in decimals)

Accrued Interest

Accrued interest is paid up to, but not including, the settlement date. Therefore, if the settlement occurs on the first of the month, the current amount due does not include an accrued interest payment. For funding purposes, the accrued interest amount is calculated based on the following formula:

c = [d x e/360 days] x (f – 1 day), where
c = interest
d = current balance of the security
e = the pass-through rate
f = the settlement date

Maximum Number of Pools and Minimum Delivery Amounts

The maximum number of pools permitted for delivery into a given trade depends on:

- the MBS pass-through rate,
- the amount of the trade, and
- the number of pools that are needed to reach the minimum delivery amount (which is determined by the applicable trade delivery variance). The current minimum balance for each pool in a group submission must be at least $25,000.

The limits are described in the following table:

MBS Pass-Through Rate	Original Trade Amount	Maximum Number of Pools
< 8%	≤ $500,000	1
	> $500,000 and < $1,000,000	2
	≥ $1,000,000	3 pools per each million dollars of the trade amount

MBS Pass-Through Rate	Original Trade Amount	Maximum Number of Pools
≥ 8%	≤ $500,000	3
	> $500,000 and < $1,000,000	4
	≥ $1,000,000	5 pools per each million dollars of the trade amount

Pairing Off

If a lender is having difficulty meeting its commitment to deliver a security, the Desk may permit the lender to execute a “pair-off.” The lender should request a pair-off well in advance of the scheduled settlement date to avoid a “failed” delivery.

To request a pair-off, a lender may either:

- request a “firm offer” from the Desk, identifying the trade to be paired off. A firm offer will enable the lender to buy from the Desk (at current market value) an MBS that is comparable to the one the lender agreed to sell to the Desk, or
- arrange a transaction with a third party whereby the lender purchases the MBS from that party and delivers it to the Desk in fulfillment of its commitment.

Pair-offs are not always possible in certain market environments; therefore, a lender should evaluate market conditions before considering their use.

The lender must wire pair-off funds to Fannie Mae on the settlement date. If the lender owes Fannie Mae pair-off funds from two or more related buy and sell transactions that settle on the same day, it should remit a single wire for the net amount due to Fannie Mae. The wire transfer must include the lender’s name, the settlement date, and the word “pair-off.”

Fannie Mae has the right to charge interest on delinquent funds.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-04	May 01, 2019

C3-7-04, Delivering MBS Pool Data and Documents (05/05/2021)

Introduction

This topic includes specifics on pool data and documentation delivery requirements, including:

Required Documents for MBS Pool Loans

See E-2-01, Required Custodial Documents for a list of mortgage documents that should be included in the document submission package for all loans. C3-7-07, Sale of Fannie Mae Securities to Third Parties for additional information.

General MBS Pool Delivery Requirements

A lender must deliver the mortgage document submission package to the document custodian at the same time it transmits the loan delivery data to Fannie Mae. The submission package must be sent to the assigned document custodian and addressed according to the instructions provided by that custodian. The custodian must then complete the required loan certification prior to pool closing, which must occur before Fannie Mae issues the related securities.

The lender must allow sufficient processing time between the time it submits its loan delivery data and the document submission package and the time it wants the securities to be issued in book-entry form. See C3-7-07, Sale of Fannie Mae Securities to Third Parties for additional information.

For additional information on the eligibility criteria for document custodians, see the RDC guide. For a complete list of active document custodians, refer to Fannie Mae's Active Document Custodians.

MBS Pool Data Delivery Requirements

When a lender transmits its loan delivery data, it must include a *Delivery Schedule (Form 2014)* for MBS pools. Form 2014 identifies the parties to which the securities are to be issued. If the lender markets and sells the securities before it submits its pool documentation to Fannie Mae, it must provide instructions related to the delivery of the securities on this form. Special instructions for preparing Form 2014 are necessary for MBS delivered using the early funding option As Soon As Pooled Sale.

The lender enters loan data into Loan Delivery. Data should include the Financial Institution Number (FIN) of the applicable document custodian. When submitting loan delivery data to Fannie Mae, the lender represents and warrants that:

- the data is correct,
- each loan listed is to be transferred to Fannie Mae on the book-entry delivery date of the related securities, and
- the loans will be delivered and serviced in accordance with the terms of the MBS commitment and Fannie Mae's Guides.

For information about specific FIN codes, see *Loan Delivery Data Requirements.*

Lenders delivering into Fannie Majors must include the Fannie Majors pool and CUSIP number in their deliveries. A lender may submit data for mortgages in the same Fannie Majors at different times and on different days of the month, as long as all of the mortgages submitted are the same product type and have the same remittance cycle and servicer. All Fannie Major deliveries must be error-free and certified by 6:00 p.m. Eastern time on the fourth to last business day before the end of the month.

Example

In the following calendar example, the fourth to last business day of the month is Friday the 26th.

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
21	22	23	24	25	26	27
28	29	30	31			

Lender submissions must align to the eligible settlement dates as published on the applicable Pool Settlement Calendar for the issue month of the submission. Data submission must be transmitted in Loan Delivery by 6:00 p.m. Eastern time on the published last day to submit to be eligible for delivery to Fannie Mae in that issue month. For more information on eligible settlement and submission dates, see the Loan Delivery page on Fannie Mae's website.

Fannie Mae must have received the lender's loan delivery data for a specific MBS pool transaction by the time it receives the document custodian's electronic certification for the pool. Loan delivery data is sent electronically to the document custodian and Fannie Mae at the same time, via Loan Delivery.

If the lender fails to deliver the required delivery data for any specific MBS pool transaction to Fannie Mae, Fannie Mae may terminate the related MBS commitment by giving the lender written notice of the termination. Fannie Mae will telephone the lender in advance to inform it that a written termination notification is being sent.

MBS Pool Document Delivery Requirements

The lender must have a custodial arrangement for each MBS pool transaction it delivers to Fannie Mae. The seller must add the document custodian to its profile within the Loan Delivery application. In addition, the seller must submit the FIN code for the document custodian in the delivery file. The FIN code allows the data to be routed to the proper document custodian. Failure to specify the proper FIN may result in a delay of certification and/or MBS pool securitization. However, if an MBS pool contains one or more ASAP Plus loans, all loans within the pool must be certified by the custodian who certified the ASAP Plus delivery. See *ASAP Plus Loan Deliveries and Redeliveries as ASAP Plus Pools below, for additional details.*

Once the lender has the applicable *Master Custodial Agreement (Form 2017)* on file with Fannie Mae for each of the different document custodians it uses, the lender will not need to advise Fannie Mae about the specific custodial arrangement for specific MBS pools when they are delivered. See A3-3-04, Document Custodians for additional information.

When a lender delivers loans into an MBS, it must send documentation on each mortgage to its document custodian for certification and retention of physical custody, from that point forward, pending successful completion of the loan acquisition transaction. The seller should ensure that the mortgage document submission package is submitted to its overnight carrier (with instructions for first morning delivery) the same day that the seller submits the loan data to Fannie Mae for purchase. Loan data delivered by the seller to Fannie Mae will be certified the next business day provided the documents have been delivered to the document custodian via first morning delivery, and there are no discrepancies and no unresolved lien issues. See E-1-02, List of Contacts.

When the document custodian receives the mortgage document submission package, it will review the related mortgage documentation to verify all of the required documents have been received and are in order. The document custodian will then work with the lender to correct any certification data or document errors. Lenders can opt-in to receive email notices through Loan Delivery when data or document discrepancies are noted during certification. Lenders then have the option to accept or decline data changes the custodian proposes as a result of a discrepancy on the note and the data they provided. The lender must work with the custodian to ensure all discrepancies are resolved.

If there are no document or data-related errors, the document custodian will transmit a certification to Fannie Mae.

As Soon As Pooled Plus Loan Deliveries and Redeliveries as As Soon As Pooled Plus Pools

In addition to the instructions above in *MBS Pool Document Delivery Requirements*, the following requirements also pertain to As Soon As Pooled Plus loan deliveries and redeliveries.

If sellers opt to redeliver an As Soon As Pooled Plus loan as a whole loan execution to Fannie Mae, they must redeliver the loan to Fannie Mae via Loan Delivery. When an As Soon As Pooled Plus loan is redelivered as a whole loan, sellers must include the FIN code upon redelivery. Failure to specify the proper code may result in a delay of certification and/or purchase of the loan.

If sellers opt to redeliver an As Soon As Pooled Plus loan as an MBS execution to Fannie Mae, they should redeliver the loan to Fannie Mae via Loan Delivery.

If an MBS pool contains one or more As Soon As Pooled Plus loans, all ASAP Plus loans within the pool must be certified by the same document custodian who certified the ASAP Plus loan. In addition, the seller must transmit all of the loans in the pool with the same document custodian FIN code. The seller will need to add the document custodian to its profile within the Loan Delivery application.

Failure to specify the proper FIN code may result in a delay of certification and/or purchase of the loan.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-04	May 05, 2021
Announcement SEL-2019-04	May 01, 2019
Announcement SEL-2018-03	April 03, 2018

C3-7-05, Confirming Presettlement Information (04/01/2009)

Introduction

This topic provides the steps entailed and the information the lender must provide to Fannie Mae prior to the security settlement date, including:

- Basic Requirements for Presettlement
- Information Required for Presettling Pools of Seasoned Mortgages
- Information Required for Presettling ARM MBS

Basic Requirements for Presettlement

When a lender sells MBS through the Capital Markets Pricing and Sales Desk, it must call the Desk to verify trade details no later than 3:00 p.m. (Eastern time) two business days before the settlement date. This is called the notification date.

If a lender needs to make any corrections or cancellations, it must call before 12:15 p.m. (Eastern time) on the notification date to ensure that delivery can take place within two business days. If the call is received after this time, the delivery cannot take place until three business days after the notification date.

Fannie Mae will accept a fax transmission of the trade details as long as the lender notifies the Desk in advance about the pending transmission and the transmission is received by 3:00 p.m. (Eastern time) on the notification date. See Capital Markets Operations Collateral Management for fax number information E-1-02, List of Contacts.

After the change or deletion of the payee code has been made, Fannie Mae mails the lender a list of its outstanding payee arrangements.

✓	Requirements
	MBS pool number and the related CUSIP number
	Original pool balance (which is the face amount of the security)
	Pass-through rate (which is the "coupon" rate of interest that will be paid to the investor)
	Price (which is the dollar amount paid for the MBS)
	Trade date (which is the date on which the parties agree to the terms of the transaction)
	Settlement date (which is the date that the parties agreed the transfer of the securities and the payment of the purchase price would take place)
	Issue date (which is the first day of the month in which the securities backed by the pool are issued)
	Any unique pool specifications (such as a Fannie Majors)

Information Required for Presettling Pools of Seasoned Mortgages

There may be some instances in which Fannie Mae requires a pool that is seasoned for two or fewer years to be treated as a "seasoned" pool. When this occurs, Fannie Mae will inform the lender during the oral confirmation of the trade. For any pool that is treated as a "seasoned" pool, the lender must provide not only the information required above, but also the following additional information:

✓	Requirements
	Weighted-average maturity (which is the weighted-average of the remaining terms of the mortgages underlying the MBS as of the trade date)
	Weighted-average coupon (which is the weighted-average of the note rates of the mortgages underlying the MBS as of the trade date)
	Latest loan maturity (which is the maturity date of the latest maturing mortgage in the MBS)

✓	Requirements
	Geographic concentration of the mortgages in the pool (if a concentration was specified at the time of the trade)

Information Required for Presettling ARM MBS

ARM MBS pools are backed by ARMs of any age. For an ARM MBS pool, the lender must provide not only the information required above (and the information for a seasoned pool above, if the pool is treated as a “seasoned” pool), but also the following additional information:

✓	Requirements
	Index on which the periodic interest rate adjustments for the underlying mortgages are based
	Periodic and lifetime interest rate caps for the underlying mortgages
	Periodic payment caps (if any) for the underlying mortgages
	MBS margin (which is the portion of the mortgage margin that is used to establish the pass-through rate for the pool on each interest rate change date)
	Interest rate change date (which is the date on which the interest rates for the underlying mortgages will be adjusted)
	Frequency of the interest rate adjustments for the underlying mortgages
	Applicability and terms of any conversion-to-fixed-rate feature for the underlying mortgages

Recent Related Announcements

There are no recently issued Announcements related to this topic.

C3-7-06, Settling the Trade (05/05/2021)

Introduction

This topic provides information concerning buying an MBS from or selling the MBS to the Sales Desk, including:

- Turnaround Times for MBS Pool Deliveries
- Distribution of Securities
- “Due Bill” for MBS Pool Settlements
- Multiple Warehouse Lenders
- Rejection of a Wire Transfer/Change of Wire Transfer Instructions
- Loan- and Pool-Level Information Available after Pool Closing

Turnaround Times for MBS Pool Deliveries

The following turnaround times apply to the elapsed time between Fannie Mae’s receipt of the lender’s error-free loan delivery data, Fannie Mae’s receipt of the document custodian’s certification that the lender submitted a complete and accurate pool submission package, MBS disclosure data publishing, and Fannie Mae’s book-entry delivery of the securities.

> **Note**: The names of the days of the week are used as an example only.

If processing type is	And lender’s error-free transmission is received by:	And custodian’s certification is received by:	Then, disclosure data is published by:	Then, book-entry delivery of securities will be by:
Single-Issue Pool[1]	6:00 p.m. (ET) on Monday	10:30 a.m. (ET) on Tuesday	6:30 a.m. (ET) on Wednesday	Thursday (4 business days)
Fannie Majors[1]	6:00 p.m. (ET) on Monday	10:30 a.m. (ET) on Tuesday	6:30 a.m. (ET) on Wednesday	Wednesday (3 business days)

If the pool is being delivered into a TBA trade, all TBA good delivery guidelines (per SIFMA) apply. These guidelines require the seller of MBS to provide the prospectus and the prospectus supplement at least 48 hours prior to TBA settlement.

If Fannie Mae cannot meet a lender’s specified book-entry date, Fannie Mae will not be responsible for any direct, indirect, or consequential damages that the lender incurs because of the delayed book-entry delivery. See C3-7-07, Sale of Fannie Mae Securities to Third Parties for additional information.

Distribution of Securities

When Fannie Mae accepts an MBS pool submission for securitization, it issues a security backed by the mortgages in the pool and delivers it electronically through the Federal Reserve Book-Entry System to an account in an institution that the lender specifies. The lender's book-entry delivery date may be the same date as settlement, but must not be later than the last day of the month in which the pool issue date occurs.

"Due Bill" for MBS Pool Settlements

A due bill is a document that the seller of a security issues to the purchaser of the security to enable the purchaser to redeem principal and interest the seller receives after the record date.

If the settlement occurs before the record date, but the delivery and payment on the trade will occur between the record date and a subsequent "payable" date, then the due bill should accompany the securities.

If the delivery and payment occur after the payable date, then a postdated check for the amount of P&I the purchaser is due, which will serve as the due bill until the postdated date of the check, must accompany the securities. When securities are transferred over the Federal Reserve's book-entry system, a Fedwire message is an acceptable substitute for the check. Due bill or Fedwire messages are valid for 60 days.

The purchaser may submit a due bill or Fedwire message to the seller for payment as soon as pool factors are available. As long as the request for payment is presented three or more days before a "payable" date, the seller will pay the purchaser the amount on the "payable" date. If the purchaser requests payment after that, the seller has three days from the date of the due bill or Fedwire message is presented in which to pay the purchaser.

Multiple Warehouse Lenders

Currently, Fannie Mae can only link one warehouse lender to each document custodian the lender uses for its MBS pool deliveries. Therefore, if a lender that uses only one document custodian, and assembles pools involving more than one warehouse lender (or uses different warehouse lenders for some MBS pools), the lender will need to designate one warehouse lender to represent the interests of the other warehouse lenders it uses.

The other warehouse lenders must execute written agreements that:

- give the designated warehouse lender the authority to represent them for those mortgages in MBS pools in which they have an interest; and
- obligate the designated warehouse lender to take the steps necessary to ensure that they receive securities equal to their interests in the mortgages in the MBS pools, when appropriate.

Rejection of a Wire Transfer/Change of Wire Transfer Instructions

If a Fannie Mae wire transfer is rejected by a depository institution or by the Federal Reserve Bank of New York, Fannie Mae will contact the lender for verification of the instructions and request that it update any information that resulted in the rejection.

To change wire transfer instructions, the lender may modify its *Delivery Schedule* (Form 2014) any time prior to 6:00 p.m. (Eastern time) on the business day preceding the designated book-entry delivery date, except when the lender is using an early funding option or delivers a loan under a bailee letter. See C3-7-02, Initiating an MBS Sale for additional information.

If a change will affect the lender's warehouse lender, the lender should contact the warehouse lender. If the warehouse lender disagrees with the lender's initial wire transfer instructions or any subsequent changes the lender makes to them, the warehouse lender should contact the lender. Fannie Mae will not compensate the lender or warehouse lender for any losses, costs, expenses, or damages it or another party incurs as a result of Fannie Mae's adherence to the lender's instructions.

Loan- and Pool-Level Information Available after Pool Closing

The table below summarizes the types and locations of MBS pool-related information that is available after the MBS pool is closed.

Information Type/Report	Location
Loan Numbers: The servicer of the MBS mortgages should enter the Fannie Mae loan numbers into its records immediately since they must be used in reporting all subsequent activity related to the mortgages to Fannie Mae	Fannie Mae Loan Numbers export in Loan Delivery and the Fannie Mae Loan Numbers for MBS in the Loan Delivery category of Fannie Mae Connect
Final Schedule of Mortgages showing pool-level and loan-level characteristics, pools closed, and a history of its closed pools	MBS Final Schedule of Mortgages (Seller Version) or MBS Final Schedule of Mortgages (Servicer Version) in the Loan Delivery category of Fannie Mae Connect
Guaranty fee buyup and buydown ratio, pool proceeds and other pool-level and loan-level characteristics. A lender may download this report and use it to verify all of the information for closed MBS pools.	Buy Up/Buy Down Report in the Pricing & Execution category of Fannie Mae Connect
Publishing of MBS pool and loan data and prospectus supplement	PoolTalk

1 The last day to submit single and Fannie Majors pools is 6:00 p.m. (ET) on the fifth to last business day before the end of the month.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2021-04	May 05, 2021
Announcement SEL-2019-09	December 04, 2019
Announcement SEL-2019-04	May 01, 2019
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2018-03	April 03, 2018

C3-7-07, Sale of Fannie Mae Securities to Third Parties (05/05/2021)

Introduction

This topic contains information on the sale of Fannie Mae securities to third parties, including:

Sale of Fannie Mae Securities to Third Parties Overview

The lender must provide each purchaser of a security a copy of the most recent Fannie Mae MBS Prospectus when it enters into a contract to sell the security.

If the security purchaser requests an original printed version of the Prospectus, Prospectus Supplement, or Supplement to Prospectus Supplement, the lender must honor the request in a timely manner. Electronic versions of these documents are available at Mortgage-Backed Securities.

Copies of the prospectus and the related prospectus supplement may be obtained by writing to Trust Agreement and Prospectus Requests or by calling the Fannie Mae Delivery and Custody Helpline (see E-1-02, List of Contacts). Typically, the prospectus supplement is available no later than two business days before settlement of the related issuance of certificates.

If a newly issued pool has already been sold to a third party for future settlement, the lender is responsible for ensuring they abide by all rules related to the trade. This includes providing all necessary disclosure documents as defined by the relevant trade agreement with the counterparty.

Required Disclosure Materials

The lender must provide the required disclosure documentation (described below) to a purchaser or prospective purchaser, as applicable. The lender will have two options to provide this disclosure: the lender must follow either the Standard Delivery option or the Alternative Website Delivery option, each as described below. The lender's sale of securities—including any that Fannie Mae delivers based on the lender's instructions on the *Delivery Schedule* (Form 2014) — also must comply with applicable securities disclosure and settlement requirements, including those set forth below under either the Standard Delivery option or the Alternative Website Delivery option.

For any trade, TBA or otherwise, the required disclosure consists of both the Single-Family Prospectus and the Prospectus Supplement applicable to the MBS program.

Standard Delivery

The lender must provide the required disclosure materials to each purchaser (that is, a party that enters into an agreement to purchase the security) at the time the lender enters into a contract for the purchase and sale of that security or to an offeree (that is, prospective purchaser) that requests the offering documentation.

The required disclosure materials are to be provided in a manner agreed to by the lender and the purchaser of a security. This may include electronic delivery or mailing of a hard copy. The materials are available on Fannie Mae's website. The lender also may obtain them by contacting the Fixed-Income Investor Helpline (see E-1-02, List of Contacts). On request, Fannie Mae will provide these documents to the lender as electronic read-only files by transmitting the files to the lender's email address or by other electronic means.

Alternative Website Delivery

Another option to provide the required disclosure documentation is via Fannie Mae's website. Under this option, the lender informs the purchaser or offeree of a security, as applicable, that the required disclosure materials are available on Fannie Mae's website. If the lender selects this Alternative Website Delivery option, the lender must first deliver or cause to be delivered the following:

- a Notice of Offering to each offeree of a security that requests the offering documentation (that is, the MBS Prospectus and the Prospectus Supplement for that security); and
- a Notice of Sale to each purchaser of a security at the time the purchaser enters into a contract with the lender for the purchase of the security.

The Notice of Offering means a notice (including an electronic notice) prepared by the lender to offerees of securities. The Notice of Offering must:

- state that the offering documentation is or will be available at Mortgage-Backed Securities on Fannie Mae's website,
- state that the information about Fannie Mae incorporated by reference into the offering documentation is available at Mortgage-Backed Securities,
- explain how to access the offering documentation and the documents incorporated by reference from the website,
- state that the offeree has the right to request a printed copy of the offering documentation, and
- explain the procedure for requesting a printed copy of the offering documentation.

The Notice of Sale means a notice (including an electronic notice) prepared by the lender to purchasers of securities. The Notice of Sale must:

- state that the sale was made pursuant to the offering documentation,
- state that the offering documentation is or will be available at Mortgage-Backed Securities,
- state that the information about Fannie Mae incorporated by reference into the offering documentation is available at Mortgage-Backed Securities,
- explain how to access the offering documentation and the documents incorporated by reference from Mortgage-Backed Securities,
- state that the offeree has the right to request a printed copy of the offering documentation, and
- explain the procedure for requesting a printed copy of the offering documentation.

Notwithstanding the Standard Delivery and Alternative Website Delivery options, if the purchaser or offeree of a security requests a hardcopy version of the MBS Prospectus, Prospectus Supplement, or Supplement to the Prospectus Supplement, the lender must honor the request in a timely manner.

The information in the MBS Prospectus and the Prospectus Supplement for that security is the only information about a pool (or the mortgage loans included in a pool) that a lender may disclose to the public.

Indemnification Against Losses

Lenders are subject to all indemnification obligations as described in A2-1-03, Indemnification for Losses.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcement	Issue Date
Announcement SEL-2021-04	May 05, 2021

Part D, Ensuring Quality Control (QC)

Introduction

This part discusses the quality control process for lenders and Fannie Mae.

D1, Lender QC Process

This subpart describes Fannie Mae's requirements for lender quality control programs and practices.

D2, Fannie Mae QC Process

This subpart describes the process Fannie Mae uses to ensure that the mortgage loans it purchases or securitizes meet its eligibility and underwriting requirements.

Subpart D1, Lender QC Process

Introduction

This subpart describes the lender's responsibilities for ensuring that the mortgage loans it sells to Fannie Mae meet Fannie Mae's eligibility and underwriting requirements. It contains information on Fannie Mae's requirements for establishing a quality control (QC) program, including documenting a QC plan, staffing and outsourcing of the QC process, selecting and reviewing mortgage loan files, reporting results, and retaining records.

Chapter D1-1, Lender Quality Control Process

Introduction

This chapter provides information on the required elements of a lender's quality control (QC) program, including requirements for documenting a QC plan, establishing quality standards and a QC process, and for staffing and outsourcing of the QC process.

D1-1-01, Lender Quality Control Programs, Plans, and Processes (08/07/2019)

Introduction

This topic provides an overview of Fannie Mae's requirements related to the lender's ongoing assessment of its loan origination activities and associated processes. (QC requirements that relate to the lender's servicing activities are described in the Servicing Guide.) This topic also contains information on the elements required for a QC program, including:

- Overview
- QC Plan Contents
- Quality Standards and Measures
- QC File Review Overview
- Selection of Loans for QC Review
- Reporting and Remediation

Overview

An effective QC program is a key component of the lender's overall control environment. The QC program defines the lender's standards for loan quality, establishes processes designed to achieve those standards, and mitigates risks associated with the lender's origination processes. Fannie Mae requires the lender to develop and implement a QC program that provides a structure for identifying the deficiencies in the loan manufacturing process and for implementing plans to quickly remediate those deficiencies and underlying issues. The lender's QC program must include a documented QC plan that outlines requirements for validating that loans are originated in accordance with its established policies and procedures and

- the loans comply with applicable federal, state, and local laws and regulations;
- the loans comply with the *Selling Guide*, all related contractual terms and agreements, and are in all respects eligible for delivery to Fannie Mae; and
- the QC plan must guard against fraud, negligence, errors, and omissions by officers, employees, contractors (whether or not involved in the origination of the mortgage loans), brokers, borrowers, marketing partners, and others involved in the mortgage process.

Lenders that fail to maintain an effective QC program will be in breach of their contractual obligations with Fannie Mae.

QC Plan Contents

The lender's QC program must include a documented QC plan that establishes standards for quality and incorporates systems and processes for achieving those standards. The QC plan, at a minimum, must contain the following information.

✓	**Lender's QC Plan Requirements**
	Quality standards and measures, including: • a general overview of the QC philosophy • plan objectives • specific risks to be measured, monitored, and managed • methods used to ensure the QC program is an independent and unbiased function including program governance (targets, sampling) and transaction execution
	Procedures: detailed operating and reporting procedures for all employees involved in or affected by the QC process

✓	**Lender's QC Plan Requirements**
	QC file review process: a process for performing prefunding and post-closing QC file reviews, including at a minimum, a process for • confirming compliance with Fannie Mae's *Selling Guide,* all related contractual terms and agreements, and that the loans are in all respects eligible for delivery to Fannie Mae • confirming compliance with applicable federal, state, and local laws and regulations
	Sample selection process: a process for identifying a representative sample of loans for QC file reviews using both random and discretionary selection processes that includes loans • originated through each applicable production channel (for example, retail, correspondent, and third-party originators) • originated under all mortgage products (for example, fixed-rate, ARM, and special or niche programs) • originated using all underwriting methods (manual and each automated underwriting system)
	Reporting: written procedures for reporting the results of the QC file reviews, including • the method of monthly reporting of review findings • identifying critical components to be included in the reports • distributing summary-level findings to senior management • distributing loan-level findings to the business unit(s), specifically to parties within the business unit(s) responsible for resolution • requiring a timely response to, and resolution of (or a plan for resolution of), findings identified in the QC review process • maintaining accurate and detailed records of the results of the lender's QC reviews
	Vendor review: a process for reviewing the QC work performed by the lender's third-party vendors
	File retention: a process for maintaining for three years records of QC findings and reports, loan files reviewed, and all related documentation, including chronicling the location of such records
	Audit: an audit process to ensure that the lender's QC processes and procedures are followed by the QC staff and that its assessments and conclusions are recorded and consistently applied

Quality Standards and Measures

The lender is responsible for the development and maintenance of standards for loan quality and for the establishment of processes designed to achieve those standards. To evaluate and measure loan quality standards effectively, the lender must establish a methodology for identifying, categorizing, and measuring defects and trends against an established target defect rate.

At a minimum, the lender must identify any loans with a defect (loans not in compliance with the *Selling Guide* or other related contractual terms and agreements) and establish a methodology by which all loans with identified defects can be categorized based on the severity of the defect. The lender must define the severity levels appropriate to its organization and reporting needs, however, the highest level of severity must be assigned to those loans with defects resulting in the loan not being eligible as delivered to Fannie Mae.

The lender must also establish target defect rates for its organization, reflecting its quality standards and goals. The establishment of a target defect rate is based on the lender's post-closing random QC sample and enables the lender to regularly evaluate and measure progress in meeting its loan quality standards. Different target defect rates may be established for different severity levels; however, at a minimum a target defect rate must be established for the lender's highest level of severity.

A target defect rate must be established that is as reasonably low as possible. Once the targets are set, performance against the targets must be measured at least quarterly and reported to management. The target defect rate(s) must be evaluated and if necessary reset at least annually. The lender must document the rationale for establishing the target rate(s). Fannie Mae may assess how the lender's chosen target defect rate affects Fannie Mae's risk and may provide input on a more appropriate target.

QC File Review Overview

As part of its QC program, the lender must establish processes to evaluate and monitor the overall quality of mortgage production through prefunding and post-closing reviews. The purpose of performing a loan file review is to assess loan quality and eligibility and to confirm that the underwriting decision is well justified. Loan file reviews must include, at a minimum, an assessment of

- compliance with Fannie Mae requirements by confirming that
  - the loan meets eligibility and underwriting requirements,
  - the underwriting decision is adequately supported and all documentation required to support the decision is contained in the file, and
  - the loan is secured by a property that provides acceptable collateral; and
- compliance with all federal, state, and local laws and regulations. (For additional information, see A3-2-01, Compliance With Laws.)

When the lender's loan file review identifies discrepancies between the data and/or information that was used in the underwriting decision and the data or information verified through the QC process, the lender must reassess the underwriting decision based on the newly verified information to determine whether the loan remains eligible as delivered to Fannie Mae.

Example: the loan would be considered to be ineligible as delivered in a case when the lender's review of the settlement statement reveals that the borrower received cash back at closing in an amount that exceeds the limit for limited cash-out refinances, but the loan was underwritten and delivered to Fannie Mae as a limited cash-out refinance.

If the lender determines that the mortgage loan was not eligible as delivered, the lender must advise Fannie Mae of these findings using the self-report functionality in Loan Quality Connect. For additional information, see D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit and D1-3-03, Lender Post-Closing Quality Control Review of Data Integrity.

Selection of Loans for QC Review

The lender's QC process must include mechanisms for monitoring the quality of work performed by employees, contractors, vendors, and other third-parties involved in loan origination, property appraisal, processing, underwriting, appraisal review, and closing functions.

The lender must establish and document a process for identifying a representative sample of loans for QC file reviews for both prefunding and post-closing QC. While utilizing discretionary file selections for prefunding QC is appropriate, the post-closing QC process must include both random and discretionary file selections. The lender must assess and understand the holistic risk inherent in its origination processes when determining the appropriate selection methodology and sample size for its prefunding and post-closing discretionary QC sampling.

When considering elements to target for prefunding or post-closing discretionary reviews, the lender should consider risks inherent in its processes as well as errors or defects identified through prior reviews. For example, if the lender identifies a particular source of business as high-risk, it may decide to conduct reviews on a sample of those mortgage originations. Similarly, reviews may be used to target a specific underwriting component (for example, income calculation, asset verification) that has exhibited defect trends, or to assess areas that pose unique or elevated risks for the lender or investor, such as loans with delinquencies shortly after origination.

To be effective, the sampling methodology for discretionary review types must be flexible and fluid enough to target loans with higher potential for risk and to be able to adjust as these risks change over time. Prefunding and post-closing discretionary review selection methodologies must be regularly re-evaluated to ensure their effectiveness, and may change frequently as a result of findings from prior reviews or changes in the lender's product mix, staffing, sources of business, or other risk factors.

When the lender sells mortgage loans originated by a third party to Fannie Mae, the lender's QC process must include additional steps to monitor the quality of third-party originations. At a minimum, the lender's QC selection process must include a representative sample of the mortgage loans received from the third-party originator to ensure that those originations meet the lender's standards for loan quality. Review cycles must be structured to ensure that transactions originated by each third-party originator are reviewed at least once annually.

For information on managing third-party originations, see A3-3-01, Outsourcing of Mortgage Processing and Third-Party Originations; for information on prefunding QC review selections, see D1-2-01, Lender Prefunding Quality Control Review Process; and for information on post-closing QC review selections, see D1-3-01, Lender Post-Closing Quality Control Review Process.

Reporting and Remediation

QC reports are a critical component of the QC program. They enable management to evaluate and monitor the quality of the lender's loan origination process and to identify specific loans and/or broad based systemic, procedural, or operational issues that need to be addressed or remedied to reduce the lender's defect rate and improve loan quality. When trends are identified through the review process, the lender must establish an action plan for specific corrective action to be taken, including the expected resolution and the time frames for implementation.

The lender must report on the results of both prefunding and post-closing QC file reviews to senior management on no less than a monthly basis. For information on prefunding reporting requirements, see D1-2-01, Lender Prefunding Quality Control Review Process; for information on post-closing reporting requirements, see D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2019-01	February 06, 2019

D1-1-02, Lender Quality Control Staffing and Outsourcing of the Quality Control Process (08/07/2019)

Introduction

This topic contains information on lender QC staff and outsourcing, including:

- Requirements for QC Operations Reporting Structure and Staffing
- Outsourcing of the QC File Review Process

Requirements for QC Operations Reporting Structure and Staffing

To preserve the integrity of the process, all post-closing QC employees (including those related to establishing, monitoring, and enforcing procedures) must be independent of the production, underwriting, and closing departments. If it is not evident that a lender’s organizational structure allows for separation of these functions, the lender’s QC plan must include the rationale for the lack of separation as well as the controls that have been established to mitigate the potential risks associated with the lack of separation of these functions. Additionally, lenders must be able to demonstrate the following in their QC program:

- clearly defined testing protocols that are governed by change control and approval authority that support program-level independence, and
- documentation at the loan level that supports changes to audit decisions made during the review and rebuttal process.

Lenders must establish minimum requirements for the skill set and expertise of the staff managing and performing the QC file review process, including the QC vendor oversight, as applicable, by documenting minimum job qualifications. Lenders are responsible for ensuring that all individuals conducting QC reviews are adequately trained and have sufficient experience levels relative to the reviews being conducted, including manual underwriting and/or loans processed through any automated underwriting systems utilized by the lender. Lenders are also responsible for ensuring that the reviewers conducting more complex or specialized reviews (for example, appraisals, self-employed borrowers) have the requisite knowledge and experience to do so.

Detailed policies and procedures for the QC file review process must be provided to all employees who will be involved with the QC file reviews.

Outsourcing of the QC File Review Process

The lender is responsible for developing and maintaining loan quality standards and developing a QC plan to achieve those standards. Fannie Mae holds the lender fully accountable for its overall QC program and for ensuring that QC loan file reviews comply with Fannie Mae's requirements, regardless of whether the work is performed by the lender itself or by an outsourced QC service provider. The lender's contract for services is not a substitute for the lender establishing and maintaining its own QC plan.

The lender must ensure that the QC vendor conducts its reviews in accordance with the lender's QC plan. The QC vendor must have written policies and procedures detailing its review methodologies, including selections, identification of defects and trends, reverifications, and reporting those results to the lender. The lender must ensure that the vendor's review staff possesses the qualifications and experience required to provide quality reviews and meaningful analysis, and that the vendor's policies and procedures align with the lender's QC policies and procedures and meet Fannie Mae's requirements.

The lender must fully incorporate the results of the vendor's reviews into its QC reporting and remediation processes. The lender must have procedures to associate the appropriate severity levels to the identified defects, and to implement corrective actions within the lender's organization, the same as it would for defects identified by the lender's own QC staff.

The lender's QC plan must include processes for reviewing the vendor's work to ensure that the lender's requirements and guidelines are applied consistently and that the review results accurately reflect the quality of the lender's loan originations. The lender must perform a monthly review of a minimum of 10% of the post-closing QC sample reviewed by the vendor to validate the accuracy and completeness of the vendor's work. The 10% sample must include loans for which the vendor identified defects and for which no defects were identified. This review must be performed by the lender itself, and may not be contracted out.

Reports reflecting the final results of the 10% QC vendor review must be produced on a monthly basis and completed within 30 days following the publication of the final QC management report. Although Fannie Mae does not specify an exact format, the reports must be useful to management in evaluating and monitoring the quality of the outsourced QC service provider. The reports, at a minimum, must include

- a description of the sample selected for review,
- concurrence rates, and
- discrepancies identified by the lender.

The management reports must focus on inaccuracies uncovered in the current month's review as well as broad trends that are revealed by the vendor QC review process, identifying specific corrective action that is needed.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-07	August 07, 2019

Chapter D1-2, Lender Prefunding QC Mortgage Review

Introduction

This chapter explains the requirements for a lender's prefunding QC review process. It addresses the timing of file reviews and the process for selecting loans, verifying data and documents, and reporting QC results.

D1-2-01, Lender Prefunding Quality Control Review Process (03/01/2023)

Introduction

This topic contains information on the lender's prefunding QC process and loan file reviews, including:

- Overview
- Timing of Loan File Reviews
- Loan Selection Process
- Review Types
- Reporting

Overview

The lender must maintain and implement a written prefunding QC plan that outlines requirements for reviewing a sample of its loans prior to closing or, in the case of loans acquired from a delegated third party, prior to acquisition. The lender must have documented procedures that include, at a minimum, the following elements:

- timing of the prefunding QC reviews,
- loan selection process,
- verification of data and documents, and
- reporting.

The lender’s prefunding QC process should operate independent of the lender’s production department, if practical. At a minimum, prefunding QC must be conducted by individuals who have no involvement in the processing and underwriting decision of the loan being reviewed.

The lender’s prefunding QC plan must be designed in a manner that supports its ability to identify and address defects prior to closing a loan. The results of prefunding loan file reviews provide important and timely feedback to the origination staff, allowing the lender to identify loans with defects (such as analysis or calculation errors, inaccurate data, or inadequate documentation) prior to closing and prevents the lender from delivering ineligible loans to Fannie Mae.

Fannie Mae encourages lenders to implement independent control points throughout the production lifecycle, such as internal and third-party data and analytical tools. Fannie Mae’s own research indicates that these tools can be effective aids in identifying errors and inconsistencies early in the origination process. However, the isolated use of such tools is not a substitute for full file reviews that are a critical component of a comprehensive prefunding QC process.

Timing of Loan File Reviews

Prefunding QC reviews must be conducted early enough in the origination process to allow adequate time to make loan selections, complete the reviews, and properly inform the loan production organization so that corrections and/or revisions can be made prior to loan closing. Fannie Mae requires reviews to be done when there is sufficient documentation in the file to perform the required review of data and documents described in *Review Types*, below.

Loan Selection Process

The lender's prefunding QC plan must contain requirements for full reviews of loan files and analysis of data and documents prior to funding. In addition to the required full file reviews, the lender may choose to make loan selections designed to focus solely on a specific element of the loan or underwriting component (for example, income and employment, assets, credit, or property). Component reviews may be completed without performing a full file QC review. They should be completed in areas the lender believes pose unique or elevated risk, or to confirm that a particular control or process is working as intended. A full file review is a more comprehensive review of the underwriting decision while a component review is a review of a specific element.

The lender must establish and document a monthly process for selecting loans for its prefunding QC reviews. The process must take into account the lender's assessment of the risks inherent in its origination processes, business sources and volume, and product mix, and must be reviewed regularly to ensure that the sample selected is appropriate. The monthly sample must include selections from each of the lender's origination channels.

Lenders must complete a minimum number of prefunding QC reviews monthly. The monthly loan selection must equal, at a minimum, the lesser of:

- 10% of the prior month's total number of loans originated or acquired, or
- 750 loans.

If the lender does not originate or acquire at least 10 loans in the prior month, the lender must select at least one loan for its current month's prefunding QC review.

> **Note:** Both full file reviews and component reviews count toward a lender's minimum requirement.

Reviews must target areas that the lender identifies as having a higher potential for errors, misrepresentation, or fraud. Targeted areas may include the following:

- loans with characteristics or circumstances related to errors or defects identified in prior prefunding and post-closing review results;
- loans with complex income calculations (for example, rental income, self-employed, and short history of receipt of income);
- loans requiring the use of non-standard processing or underwriting guidelines (for example, delayed financing, multiple financed properties, assets used as income, or manual reserve calculations);
- loans secured by properties located in areas with high delinquency rates or areas experiencing rapid increases or decreases in property values;
- loans with flags and messages that indicate potential overvaluation or appraisal quality issues on appraisals scored through Collateral Underwriter;
- loans with multiple layers of credit risk, such as high LTV ratios, low credit scores, or high DTI ratios;
- loans originated or processed through various business sources, a particular branch office, staff person, contractor, third-party originator, or appraiser;
- loans that test the effectiveness of action plan controls;
- loans originated or processed by newly hired loan officers, processors, appraisers, or other personnel or third parties involved in the loan origination process; and
- loans for which the feedback or results from third-party tools indicate potential areas of concern.

Review Types

Leveraging a mix of full file and component reviews can enable lenders to review more loans and provide a broader, more comprehensive risk review than simply performing a full review on all loans sampled.

Full File Reviews

Full file reviews are comprehensive reviews of an underwriting decision and must include review of, at a minimum, the following data and documents to ensure the documents are present and complete, and that the data relied upon in making the underwriting decision is accurate. A full file review must include all of the following:

- data entered into an automated underwriting system;
- borrower(s)' Social Security number(s);
- income calculations and supporting documentation;
- employment documentation, including verbal verification of employment;
- assets needed to close or meet reserve requirements;
- appraisal, if applicable, including reconciliation of CU flags and messages; and
- documentation of adequate mortgage insurance coverage.

For loans with income or assets validated by the DU validation service, the lender is not required to re-calculate the validated income or assets as part of its prefunding QC review.

For all loans, including those with validated income, employment, or assets, the lender must continue to ensure the information it enters in DU is appropriate based on its review and investigation of any inconsistent or contradictory information in the loan file and the verification report.

Component Reviews

Component reviews focus on specific elements of a loan and can be completed more efficiently and for less cost than full file reviews. Targeting high-risk variables can help create visibility into unknown risks and confirm controls are working effectively. Components that can be reviewed include, but are not limited to

- income when the DTI ratio is at or over a certain threshold,
- self-employment income,
- rental property income or debt,
- comparable selections,
- debt properly excluded and documented correctly,
- student loan payment calculations,
- solar panel liabilities, and
- large deposits.

Reporting

Lenders must establish and implement a process to report defects identified in the prefunding reviews. The process must include

- monthly reporting to senior management within 30 days of completion,
- communicating to the parties responsible for resolving the defects,
- summarizing the results into a report of all prefunding QC findings, and

- documenting the resolution of the defects.

At a minimum, the reports must

- describe the sample selection, including the sample criteria, number of loans reviewed, and percentage total of eligible loans reviewed;
- report and trend gross defect percentages for the highest severity level;
- include defect trending information for issues and top defects over the most recent three months; and
- include action plans to address top defect trends.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023

Chapter D1-3, Lender Post-Closing QC Mortgage Review

Introduction

This chapter explains the requirements for a lender's post-closing QC review process. It addresses the timing of file reviews and the process for selecting loans, verifying data and documents, and reporting QC results. It also describes the process for monitoring and assessing the work performed by appraisers.

D1-3-01, Lender Post-Closing Quality Control Review Process (03/01/2023)

Introduction

This topic contains information on the lender's post-closing QC review process and selecting loans for the post-closing QC reviews, including:

Loan File Review Process

The lender's written QC plan must include processes for evaluating and monitoring the overall quality of the lender's loan production and its reverification procedures.

The post-closing loan file review process must include a review of the loan to assess the accuracy and integrity of the information used to support the lending decision, the documentation of any defects identified through the review, and an assessment as to whether or not the loan complies with the *Selling Guide*, all related contractual terms and agreements, and is in all respects eligible for delivery to Fannie Mae.

At a minimum, the review must include an evaluation of

- the accuracy and completeness of the loan application;
- the existence and accuracy of the underwriting documents, including reverifications of underwriting documents, and a data integrity review;
- the underwriting decision to confirm it is supported;
- the output from any third-party data analysis tools;
- the data entered into DU, if applicable;
- the appraisal, if applicable;
- the property eligibility;
- the project eligibility, if applicable;
- compliance with the mortgage insurer's guidelines, and documentation of adequate mortgage insurance coverage;
- the existence and accuracy of legal, transaction documentation (for example, sales contract), and closing documentation; and
- compliance with all federal, state, and local laws and regulations. (For additional information, see A3-2-01, Compliance With Laws.)

Timing of QC Review Process

Loans must be selected for post-closing QC reviews on at least a monthly basis. The entire QC process (selection, review, rebuttal, and reporting) must be completed within 90 days from the month of the loan closing.

> **Note**: Lenders must notify their Fannie Mae account team or QC Specialist if their QC cycle is in arrears more than one 30-day cycle.

Loan Selection Process

Loans must be selected for post-closing QC reviews on at least a monthly basis. Lenders must select loans through both a random and a discretionary selection process. The lender's written QC plan must include the following information regarding its loan sampling process:

- the types and frequency of selections, and
- a defined process for selecting loans for QC review.

See D1-1-01, Lender Quality Control Programs, Plans, and Processes, for additional information.

Random Mortgage Selections and Statistical Sampling

The lender must select for its post-closing QC review a minimum of 10% of the loans that it originates or acquires from a third party using a random selection methodology (unless a statistical sampling methodology is used). If 10% is less than one loan, then at least one loan must be selected. The loans selected must be representative of the lender's overall book of business, including

- all of the different types of loans that the lender offers,
- loans originated by each branch office and by third-party originators, and
- manually underwritten loans as well as loans that were processed through automated underwriting system(s) utilized by the lender.

If the lender uses statistical sampling for its selection process, at a minimum, the statistical sampling model (variables) must be calculated using a 95% confidence level with a 2% precision rate and a statistical statement of six months. (Fannie Mae recommends using a three month statement.) The lender must document the methodology and provide, upon request, a detailed written justification of the methodology, including the following information:

- method for making a statistical selection;
- variables used in the selection model and how they are defined (for example, population size, precision rate, percentage of defect rate, and confidence level); and
- the results of periodic evaluations of the process and variables, and establishment of time periods for the evaluations.

Fannie Mae may require adjustments to the statistical methodology based upon its review.

Discretionary Mortgage Selections

Discretionary QC samples are a required element for post-closing QC plans. These selections supplement (but do not replace) a lender's random (or statistical) sample. The purpose of a discretionary sample is to look for or highlight areas that may pose unique or elevated levels of risk for the lender or to confirm that a particular control or process is working as intended.

The lender must establish a process for selecting loans for its discretionary post-closing QC selections. The process must take into account the lender's assessment of the risks inherent in its origination processes, business sources and volume, and product mix, and must be reviewed regularly and, when necessary, adjusted to ensure that the sample selected, including sample size, is appropriate.

Loans selected for post-closing discretionary QC reviews must target areas that the lender identifies as having a higher potential for errors, misrepresentation, or fraud. Targeted areas may include the following:

- loans with characteristics related to errors or defects identified in prior prefunding and post-closing review results;
- loans with complex income calculations (for example, rental income, self-employed, short history of receipt of income);
- loans requiring the use of non-standard processing or underwriting guidelines (for example, delayed financing, multiple financed properties, assets used as income, or manual reserve calculations);
- loans secured by properties located in areas with high delinquency rates or areas experiencing rapid increases or decreases in property values;
- loans with multiple layers of credit risk, such as high LTV ratios, low credit scores, or high DTI ratios;
- loans originated or processed through various business sources, a particular branch office, staff person, contractor, third-party originator, or appraiser;
- loans originated or processed by newly hired loan officers, processors, appraisers, or other personnel or third parties involved in the loan origination process;
- loans that may be subject to concerns about delinquency rates or patterns identified in other reviews; and
- loans for which the feedback or results from third-party tools indicates potential areas of concern.

> **Note**: Fannie Mae requires the lender to sample loans that have a high risk for fraud as part of its QC process. This includes loans that are early payment defaults. (See A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud.)

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2020-03	June 03, 2020
Announcement SEL-2019-07	August 07, 2019

Announcements	Issue Date
Announcement SEL-2019-03	April 03, 2019

D1-3-02, Lender Post-Closing Quality Control Review of Approval Conditions, Underwriting Decisions, and Documentation (06/07/2023)

Introduction

This topic contains information on the lender's post-closing QC review of underwriting documents, including:

Overview

The lender must verify the accuracy and integrity of the information used to support the lending decision for any mortgage loans selected for a QC review. All reverification documentation must be retained either in the underwriting file or in the lender's QC records. The lender's QC plan must document where the reverifications will be maintained.

When the reverifications are performed by an outsource vendor, it is acceptable for the reverification documentation to be maintained with the vendor rather than in the underwriting or QC files. In such cases, the vendor must provide the lender with the results of the reverification findings, which must be accessible to the lender along with the reverification documentation for at least three years from the date of the review and must be provided to Fannie Mae upon request.

When information obtained through the reverification process differs from the information utilized in the underwriting of the loan, the lender must re-underwrite the loan to verify that the loan remains eligible as delivered to Fannie Mae.

Review of Underwriting Decision and Approval Conditions

The lender must confirm that the mortgage loan was underwritten in accordance with Fannie Mae's requirements and that adequate support for the underwriting decision is contained in the loan file.

The lender must confirm that all loan approval conditions required by the underwriter were satisfied and that the information on the closing documents, including the settlement statement, is consistent with the underwriting decision and the final terms of the mortgage loan.

Review of DU Findings and Conditions

For loans underwritten through DU, the lender must confirm that all DU Verification Messages/Approval Conditions that appear in the DU Underwriting Findings report were satisfactorily resolved and adequately supported by appropriate documentation. If DU returned an Ineligible recommendation, the reviewer must confirm that the loan was eligible for delivery to Fannie Mae.

For additional information on circumstances under which an Ineligible recommendation may be acceptable, see B3-2, Desktop Underwriter (DU).

General Requirements for Reverifications

When conducting the required post-closing QC reviews on loans selected through the random selection process, the reverifications or reviews noted below must be performed for all selected loans.

As part of its discretionary loan selection process, the lender may choose to make targeted loan selections designed to focus solely on a specific element of the loan, such as product, business source, or underwriting component (for example, income and employment, assets, credit, or property).

When conducting the required discretionary post-closing QC reviews, the lender must consider the purpose of the targeted selection when determining whether certain reverifications are necessary. For example, if the purpose of the targeted selection is to focus specifically on income calculations, reverification of assets or a review of the appraisal is not within the scope of the review and is not required to be completed; however, reverifications of income and employment are required. If the purpose of the targeted selection is to review loans originated through a new source of business, then all areas of the loan are in the scope of the review and all reverifications noted below must be performed. The lender must assess the purpose of the targeted loan selection and conduct the reverifications or reviews noted below as appropriate.

Use of IRS Request for Transcript of Tax Return Form 4506-C in the Lender's QC Plan

Fannie Mae requires lenders to include the requirement to submit the IRS Form 4506-C to the IRS (or designee) in their written QC plan. For all loans reviewed through the random selection process (and for loans selected through the discretionary selection process, as applicable), the post-closing QC review must include the lender's submission of the IRS Form 4506-C to the IRS (or designee) to request tax transcripts.

Transcripts must be obtained for all income types used in the underwriting process (personal and business, if applicable). If tax returns were required in the underwriting of the loan, the lender must obtain transcripts for the same tax years as documented by the borrower’s tax returns. The lender must reconcile the transcript information received from the IRS with the income documents in the loan file. See B3-3.1-06, Requirements and Uses of IRS IVES Request for Transcript of Tax Return Form 4506-C, for detailed information.

The following exceptions apply:

- Lenders that obtain the appropriate IRS transcripts during their pre-closing process (processing and underwriting) may use the same documents in their post-closing QC process without ordering new transcripts.
- Lenders are not required to obtain tax transcripts for a borrower when all of that borrower’s income was validated by the DU validation service.

For additional information, see Guidelines Related to the IRS Form 4506-C and Tax Return Transcripts.

Reverification of Borrower’s Income and Employment Information

For all loans selected via the random selection process (and for loans selected through the discretionary selection process, as applicable) the post-closing QC review must include reverification of the borrower’s income and employment information.

The lender must reverify the borrower’s income and employment information directly with the source of the original documentation and pay any applicable fees the employer may charge to provide the reverification information. The reverification should be in writing; however, a verbal reverification is acceptable provided the lender documents the conversation in writing, stating the name, title or position, and contact information of the interviewee. The reverification documentation must be maintained in the underwriting file. If the employer does not provide verification of a borrower’s income, the loan file must be documented to state the date the information was requested, but that it was not obtained. Reverification procedures may be supplemented with alternative information sources available on the Internet, maintained by state or local licensing authorities, and other third parties.

The following table describes alternative reverification options for Social Security and military income:

Income Type	Original Verification	Post-Close Reverification Options
Social Security Retirement	SSA Award Letter	• Directly with the Social Security Administration, or • Executed 4506-C transcripts. The tax return transcripts must reflect one (1) full year of income and support the amount used during origination, taking into account differences for cost of living adjustments.
	Proof of current payment with bank statements showing direct deposit of the income into the borrower's account	• Asset documentation used to support the receipt of the Social Security income must be reverified, or • Directly with the Social Security Administration, or • Executed 4506-C transcripts. The tax return transcripts must reflect one (1) full year of income and support the amount used during origination, taking into account differences for cost of living adjustments.
Social Security Disability	SSA Award Letter	Directly with the Social Security Administration
	Proof of current payment with bank statements showing direct deposit of the income into the borrower's account	• Asset documentation used to support the receipt of the Social Security income must be reverified, or • Directly with the Social Security Administration.
Military	Leave and Earnings Statement	This income does not have to be reverified directly with the United States military. However, the lender must • verify the borrower's pay rate is supported using Defense Finance and Accounting Services (DFAS) pay tables available online; • retain a copy of the pay table in the QC file; and • reverify employment by validating that the borrower was on active duty status at the time of the loan closing.

Reverification of Borrower's Asset Information

For all loans selected via the random selection process (and for loans selected through the discretionary selection process, as applicable) the post-closing QC review must include reverification of the borrower's asset information. The lender must reverify all sources of funds used for down payment, closing costs, and any required reserves directly with the source of the original documentation (such as, financial institutions and gift donors).

Fannie Mae requires that the lender attempt to reverify the borrower's assets (and pay any applicable fees for the reverification) and reconcile the information from the financial institution with information in the underwriting file. Fannie Mae recognizes that reverification of asset information directly from the borrower's financial institution may not be possible in all instances. If the reverification of asset information cannot be obtained from the financial institution, the lender must document its attempt in its QC records.

When a third-party asset verification report is provided to DU for an assessment of rent payment history or a cash flow assessment, reverification of the full 12 months of asset data is not required. Reverification of the assets used specifically for verification of assets is required as described above.

Income, Employment, or Assets Validated by the DU Validation Service

The borrower's income, employment, or assets do not have to be reverified (or recalculated) if they were validated by the DU Validation Service, and

- the lender satisfied all the requirements for obtaining representation and warranty enforcement relief (as described in A2-2-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU), and
- the loan closed by the Close By Date stated in the DU validation message.

Reverification of Borrower's Credit History

For all loans selected via the random selection process (and for loans selected through the discretionary selection process, as applicable) the post-closing QC review must include reverification of the borrower's credit history.

If a borrower's credit was evaluated by using a traditional credit report, the lender must reverify the borrower's credit history by obtaining a new tri-merge credit report. The new report does not need to generate a new inquiry that will appear on future credit reports or include trended credit data even if reflected on the credit report used for underwriting purposes. Lenders are not required to analyze trended credit data in the new credit report.

If a borrower's credit history was evaluated by using nontraditional credit or a nontraditional mortgage credit report, the lender must reverify each of the credit references on that report. If the lender obtained written references from creditors, the lender's QC review process must include reverification of each of the credit references.

The liability information obtained on the new credit report must be reconciled against the credit report or references used at the time of underwriting the loan to identify any discrepancies or the existence of any debt that may not have been taken into account when the loan was underwritten. The lender must also review any "potential red flag" messages appearing in the DU Underwriting Findings report or alerts created by sources other than DU associated with the credit report to ensure all messages have been addressed and documented, and that the loan is eligible for sale to Fannie Mae.

Verification of Owner-Occupancy

For all loans secured by a principal residence that are selected via the random selection process (and for loans selected through the discretionary selection process, as applicable) the post-closing QC review must include verification of owner-occupancy. The lender must review the property insurance policy and other documentation in the file (for example, appraisal, income tax returns or transcripts) to confirm that there are no indicators that the property is not the borrower's principal residence.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-05	June 07, 2023
Announcement SEL-2023-01	February 01, 2023
Announcement SEL-2022-09	October 05, 2022
Announcement SEL-2020-07	December 16, 2020
Announcement SEL-2019-07	August 07, 2019

D1-3-03, Lender Post-Closing Quality Control Review of Data Integrity (04/03/2019)

Introduction

This topic contains information on the lender's post-closing QC review of data integrity, including:

Verification of Data Integrity

The lender must review the final terms of the loan to ensure they align with data on which the underwriting was based. When a lender's loan file review identifies discrepancies between the data that was used in the underwriting decision and the data verified through the QC process, the lender must reassess the underwriting decision based on the newly verified information to determine whether the loan remains eligible as delivered to Fannie Mae.

For mortgages processed through DU, the lender must ensure that all data submitted to DU is true, correct, and complete. The lender must verify that the loan file contains documentation that supports all data submitted to DU to process the mortgage loan. The lender must ensure that all of the borrower's liabilities were included in DU's analysis.

When there are inconsistencies between the data and/or information submitted to DU (or used for manual underwriting) and the source documents, the lender must

Step	Description
1	Determine whether discrepancies are within the tolerances permitted by this Guide (see B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report, and B3-6-02, Debt-to-Income Ratios).
2	For loans underwritten through DU, if discrepancies are outside the DU allowed tolerances, resubmit the mortgage loan to DU using the correct data. If the lender is unable to resubmit the loan to DU, the lender must manually perform a comprehensive risk assessment using the documentation required by DU, to determine if the loan meets the *Selling Guide* requirements for manually underwritten loans. The DU limited waiver of representations and warranties is invalidated when loans that exceed DU tolerances are not resubmitted to DU. For additional information, see B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report. **Note**: DU-only products are not eligible for a manual comprehensive risk assessment. For manually underwritten loans, if discrepancies are outside of the allowed tolerances, the lender must manually perform a comprehensive risk assessment to determine if the loan meets *Selling Guide* requirements. For additional information, see B3-6-02, Debt-to-Income Ratios.

Step	Description
3	Make a determination as to whether or not the loan, with the correct data taken into consideration, remains eligible as delivered to Fannie Mae, either through the receipt of a DU recommendation of Approve/Eligible, or through manually underwriting the loan, if appropriate.
4	If the lender determines that the mortgage loan was eligible as delivered, the lender must document the underwriting file to reflect its decision.
5	If the lender determines that the mortgage loan was not eligible as delivered, the lender must advise Fannie Mae of these findings using the self-report functionality in Loan Quality Connect. For additional information, see D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit.

Review of Potential Red Flag and Alert Messages

The lender's loan file review process must include a review of any "potential red flag" messages appearing in the DU Underwriting Findings report or alerts created by sources other than DU, such as those associated with credit reports or Social Security verification systems, to ensure that all messages have been addressed and documented, and that the mortgage loan is eligible as delivered to Fannie Mae.

Review of Social Security Number

As part of the lender's loan file review process, the lender must ensure that the borrower(s)' Social Security number on loans selected for review is consistent in all file documentation and any requirements for validation of the Social Security number were satisfied prior to closing. For additional information, see B2-2-01, General Borrower Eligibility Requirements.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcement	Issue Date
Announcement SEL-2019-03	April 03, 2019

D1-3-04, Lender Post-Closing Quality Control Review of Appraisers, Appraisals, Property Data Collectors, and Property Data Collection (03/01/2023)

Introduction

This topic contains information on the lender's post-closing QC review of appraisers, appraisals, property data collectors, and property data collection including:

Overview

The lender must continually evaluate the quality of its appraisals and property data collection through the normal underwriting review of all appraisal reports and property data collection, and by utilizing prudent collateral risk assessment processes as part of the QC process. The lender should also utilize third-party tools and information (such as analytical tools and public record databases) to help identify areas of inaccuracy or inconsistencies that may be indicators of appraisal deficiencies.

Oversight of Appraisers and Data Collectors

The lender’s QC plan must include requirements for monitoring and assessing the overall quality of work performed by an appraiser and property data collector, including a process for loan-level QC reviews of origination appraisals and property data collection. Fannie Mae holds the lender fully accountable for the quality of the QC appraisal and property data collection reviews regardless of whether the work is performed by the lender itself or by an outsourced QC service provider.

The lender must also develop and maintain a documented process to monitor the appraisers and property data collectors it uses.

- For appraisers, the process (at a minimum) must include an annual review of an appraiser’s state licensing or certification status and a procedure for suspending or terminating business with individual appraisers. Additionally, the lender must have a procedure for referring appraisers to the applicable state appraiser licensing and regulatory board.
- For property data collectors, lenders must (at a minimum) ensure annual background checks and evidence the data collector has successfully received professional training for property data collection and fair lending law compliance. Lenders must also have a procedure for suspending or terminating business with individual property data collectors.

See B4-1.3-12, Quality Assurance, for information concerning Fannie Mae's right to refuse to accept appraisals prepared by specific appraisers.

Verification of Origination Appraisals

The lender must complete a collateral risk assessment for all mortgage loans with an appraisal as a part of its random QC sample. It is acceptable for the collateral risk assessment to be completed by an individual who is not a licensed or certified appraiser. However, the collateral risk assessor must be competent in appraisal theory and must be able to specifically:

- determine that a property meets eligibility requirements including the LTV, CLTV, and HCLTV ratios;
- assess appropriateness of comparable sales;
- assess appropriateness of the data presented in the appraisal report;
- conclude that the rationale for the reconciliation of value is supported;
- prescribe corrective actions for defects identified in the appraisal process; and
- reconcile flags and messages that were identified in Collateral Underwriter (CU) if the property was able to be scored in CU. If the property was not able to be scored in CU then reconcile any known quality messages (messages, alerts, flags) that are reflected in other third-party tools if utilized.

If the lender is unable to complete the above assessment or appropriately determine the quality of the origination appraisal, it may order either a desk review or field review from a licensed appraiser. The desk review or field review must account for all of the points in the above requirements.

Verification of Property Data Collection

The lender must complete a collateral risk assessment for all mortgage loans with a property data collection as a part of its random QC sample. The collateral risk assessor must be competent in assessing property eligibility and characteristics including condition and quality, and must be able to specifically

- assess the accuracy of the data obtained through the property data collection;
- identify any property eligibility issues and items of safety, soundness, or structural integrity;
- determine whether the lender appropriately required repairs or inspections; and
- prescribe corrective actions for defects identified in the quality control process.

Reporting

For appraisals, the lender must determine whether any defects identified through its collateral risk assessment process results in the value not being supported or the loan being ineligible. For property data collection, the lender must determine whether any defects result in the property not being in acceptable condition or the property being ineligible. If the lender determines that the mortgage loan was not eligible as delivered, the lender must advise Fannie Mae of these findings using the self-report functionality in Loan Quality Connect. For additional information, see D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit.

Examples

- Appraisal: The lender sells a two-unit property loan to Fannie Mae and, after reviewing the appraisal, the lender determines that the property is a mixed-use property. Because mixed-use properties are limited to one-unit, the loan is ineligible as sold to Fannie Mae and the lender must self-report the loan.
- Property data collection: The lender sells a one unit property loan to Fannie Mae and, after reviewing the property data collection, determines the property was a two-unit property. Because property data collection is limited to one-unit dwellings, the loan is ineligible as sold to Fannie Mae and the lender must self-report the loan.
- Property data collection: The lender sells a value acceptance + property data loan to Fannie Mae and, after reviewing photos of the property, determines the roof needs repair. Because roof repairs constitute a soundness or structural integrity issue, the loan is ineligible as sold to Fannie Mae and the lender must self-report the loan.

In both of these property data collection examples, the lender should have a feedback loop to ensure that underwriting teams learn how to properly manage such issues. In the first example, the lender should have switched to a traditional appraisal on the two- to four-unit form, and in the second example, the lender should have required roof repairs prior to loan closing.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-02	March 01, 2023
Announcement SEL-2021-04	May 05, 2021
Announcement SEL-2019-03	April 03, 2019

D1-3-05, Lender Post-Closing Quality Control Review of Closing Documents (06/30/2015)

Introduction

This topic contains information on the lender’s post-closing QC review of the transaction and closing documents.

- Review of Transaction and Closing Documents

Review of Transaction and Closing Documents

The lender must review each transaction and closing document for completeness, accuracy, and compliance with all underwriting and eligibility requirements, and to ensure adherence to the loan transaction. The following list reflects the most common documents that must be included in the post-closing document review. The list is not intended to be all-inclusive, and lenders must exercise judgment when determining other documents to include in the review process.

- *Uniform Residential Loan Application (Form 1003)*
- Signed sales contract and any applicable addenda
- Recorded security instrument and any applicable riders or addenda
- Mortgage loan note
- Assignment of the mortgage loan
- Mortgage insurance certificate or policy
- VA loan guaranty certificate, RD loan note guarantee, FHA mortgage insurance certificate, or HUD Indian loan guarantee certificate, as applicable
- Title evidence
- Plat or survey, as applicable
- Final Truth in Lending disclosure, as applicable
- Settlement statement
- Evidence of property and, if applicable, flood insurance
- Other closing documents, as applicable

> **Note:** If recorded documents are not available when the post-closing QC review is performed due to timing requirements for the reviews and the length of time the jurisdictions need for recording, the lender should review a copy of the document sent for recordation. The lender must also have a process to review the recorded documents when received to ensure their accuracy, and remediate any errors.

If errors are discovered in the post-closing review process, lenders must

- determine the significance of the errors;
- promptly correct the document(s) or obtain corrected document(s) from the vendor (for example, mortgage or property insurer or title company); and
- provide corrected documents to the document custodian, if applicable.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

D1-3-06, Lender Post-Closing Quality Control Reporting, Record Retention, and Audit (08/07/2019)

Introduction

This topic contains information about the post-closing QC process pertaining to the following:

Lender's Internal QC Reporting

Although Fannie Mae does not specify an exact format for reports, the lender must design reports that are useful to management for evaluating and monitoring the quality of the lender's mortgage loan production. The management reports must cover QC results at a high level by focusing on defects and broad trends that are revealed by the review process, as well as identifying mortgage loans or items that need specific corrective action.

Reporting needs are unique to each lender; however, at a minimum, post-closing QC reports must be produced monthly and

- reflect the final defect rate for the results of the current review period (taking into account responses and resolution of the initial QC findings);
- include trending information (issues and top defects);
- distinguish between defects related to compliance with federal, state, or local laws and regulations and underwriting and eligibility defects;
- report on each type of review (random and discretionary) and provide results using consistent methodology and terminology across review types;
- include intended corrective actions; and
- summarize the results of each individual review type into a comprehensive, summary report of all QC findings.

Lender's Responsibilities for Self-Reporting to Fannie Mae

The lender must notify Fannie Mae within 30 days of confirmation that one or more defects identified through the QC file review process results in the loan being ineligible as delivered to Fannie Mae. Notification must be made using the self-report functionality in Loan Quality Connect.

When making the self-report to Fannie Mae, the lender must provide Fannie Mae with a report of its findings and copies of the relevant documentation that support the reason for the finding. For example, if tax return transcripts reveal that qualifying income was inaccurate such that the borrower was not qualified for the loan on the terms and pricing offered, the lender should provide copies of the original income documentation and the tax return transcripts with its notification to Fannie Mae.

For information on the lender’s responsibility to self-report any misrepresentation, fraud, or other possible breach of a selling warranty or compliance with laws, see A2-2-01, Representations and Warranties Overview, A3-2-01, Compliance With Laws, and A3-4-03, Preventing, Detecting, and Reporting Mortgage Fraud.

Record Retention and Response to Fannie Mae Requests

The lender must retain all written and electronic records that are created as part of a QC review process for a minimum of three years. These records include documentation of QC reports, QC review findings, successful rebuttal documentation, as well as documentation related to any corrective actions. The lenders must provide Fannie Mae with a copy of its records upon request.

Audit Review of the QC Process

The lender must have an independent audit process to ensure that its QC process and procedures are followed by the QC staff, and that assessments and conclusions are recorded and consistently applied. The findings must be accurately recorded and consistent with the defects noted in the lender’s system of record.

Results of the QC audit must be distributed to senior management. It must include an affirmative statement that no influence from other business units or bias in the QC conclusions was apparent. Management must distribute the results to the appropriate areas within the organization and an action plan must be established for remediation or changes to policies or processes, if appropriate. The lender must provide a copy of the QC audits and the audit of the QC process to Fannie Mae upon request.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2019-03	April 03, 2019

Subpart D2, Fannie Mae QC Process

Introduction

Fannie Mae's Loan Quality Center reviews a sample of the mortgage loans purchased or securitized by Fannie Mae to ensure that they meet its underwriting and eligibility requirements. This subpart describes Fannie Mae's policies and practices with respect to the selection, review, and reporting of results; and the lender's responsibilities for participating in this process. Fannie Mae also reviews servicing files with the primary focus of confirming that the mortgage loan has been serviced in accordance with the and Lender Contract. See the for a description of the servicing QC process. In addition, within the Loan Quality Center, the Data Validation Center team follows up on loan-level data discrepancies to perform required data changes that, in some instances, may indicate eligibility concerns leading to a full underwriting review.

Chapter D2-1, General Information on Fannie Mae QC Process

Introduction

This chapter provides general information on the Fannie Mae QC reviews that focus on underwriting and eligibility requirements.

D2-1-01, General Information on Fannie Mae QC Reviews (04/03/2019)

Introduction

This topic contains general information on Fannie Mae's QC reviews, including:

- Fannie Mae's QC Policy
- Fannie Mae QC Reports

Fannie Mae's QC Policy

Fannie Mae has QC policies and procedures in place for its review of performing and non-performing mortgage loans. Fannie Mae uses a statistically valid approach in selecting a random sample of new mortgage loan deliveries for review. The random sample is augmented with targeted, discretionary sampling, which aids in the measurement of the overall quality of loan deliveries. The QC process evaluates loan files on a comprehensive basis with the primary focus of confirming that mortgage loans meet Fannie Mae's underwriting and eligibility requirements. The satisfactory conclusion of QC reviews may also result in mortgage loans being eligible for relief from enforcement for breaches of certain representations and warranties. See A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility, for additional information.

The QC process also provides lenders with data and feedback about the quality of their loan origination process. The goal is to engage lenders in frequent, meaningful exchanges of information about trends in the quality of delivered loans and to inform lenders about significant underwriting deficiencies identified through the review process. Together, Fannie Mae and its lenders should share a commitment to improving the quality of loan originations.

Fannie Mae's QC policies are administered by its Loan Quality Center. The selection process may change at any time to address risk concerns.

As a component of overall loan quality, the Data Validation Center team reviews loan data exceptions that are identified after Fannie Mae acquires the loan. This includes and data exceptions that may be found through reviews. The Data Validation Center works with lenders to research data exceptions and submit related data corrections. In some instances, the data change review may lead to a full underwriting review if eligibility concerns are identified or the data exception cannot be resolved. See C1-2-01, General Information on Delivering Loan Data and Documents, for additional information.

Fannie Mae QC Reports

Fannie Mae provides lenders with ongoing feedback about their overall QC performance. The feedback identifies defect types, reporting on frequent or common defects, and describes quality trend analyses and significant underwriting deficiencies identified through the QC loan file review process. This information is provided through a variety of methods that range from regular electronic transmissions to more formal periodic discussions.

The detailed loan-level reports that lenders receive identify significant defects, findings, and loans with no identified defects.

Fannie Mae's quality control process provides lenders with a holistic view of loan quality by identifying loans with significant defects as well as loans that had findings that do not affect the overall eligibility. Fannie Mae believes that providing this additional feedback supplies lenders with an important source of information that can lead to improving loan quality in the future. At times this reporting may contain nonpublic personal information (NPI). Fannie Mae shares this NPI with lenders in compliance with permitted purposes under applicable privacy laws. See A3-4-01, Confidentiality of Information, for additional information.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-03	April 03, 2019

D2-1-02, Fannie Mae QC File Request and Submission Requirements (02/01/2023)

Introduction

This topic contains information on Fannie Mae QC requests for loan files, including:

- Notification of a QC Review
- Document Submission Requirements
- Loan File Delivery Timeline

Notification of a QC Review

Lenders are notified which loans Fannie Mae has selected for QC review via an email sent by Fannie Mae's Loan Quality Connect. Therefore, lenders are required to register for Loan Quality Connect to obtain access to it.

Document Submission Requirements

Lenders must maintain a complete loan file, including all documents used to support the underwriting decision. Upon Fannie Mae's request, lenders must provide electronic copies of the complete loan file, as described in the request.

When a third-party asset verification report is provided to DU for an assessment of rent payment history or a cash flow assessment, an asset verification report covering the minimum period of time described in A2-4.1-01, Establishing Loan Files, is required to be maintained in the loan file and provided upon request.

Loan files or documents can be uploaded using the drag-and-drop feature or by uploading to the corresponding task in Loan Quality Connect. Lenders should contact the Loan Quality Center for assistance in determining which electronic option best aligns with their business needs and operations, and to initiate the on-boarding process, if they have not already done so. See the following resources for additional information:

- Bulk Upload of Loan Files or Documents
- E-1-02, List of Contacts, for the Digital Data Control Team - LQC; and

- Loan Quality Connect.

Loan files must include clear, complete "copies" of any required documents. Lenders should remove all duplicate documents before sending in the file. The requested files must include the applicable documentation listed in the Post-Closing Loan File Document Checklist (Form 1032). For information concerning the required contents of a loan file, see A2-4.1-02, Ownership and Retention of Loan Files and Records. (Completion and submission of Form 1032 is optional.) Lenders must follow the electronic submission naming protocol to associate the Fannie Mae loan number with the electronic file.

Lenders that are unable to submit loan files in the supported format should contact the Loan Quality Center to determine if an alternate format may be used as an interim submission method. To avoid non-compliant loan files, lenders should not submit loan files using an alternate method without approval from the Loan Quality Center to ensure that Fannie Mae can access and review the loan file documentation and that the lender receives credit for the loan file submission. Loan files submitted using an alternate method (for example, paper files) without prior approval from the Loan Quality Center may not be accepted.

Loan File Delivery Timeline

Lenders must send the requested documentation for an underwriting, servicing, or data validation review within 30 days after Fannie Mae notifies the lender that it has selected a loan for review. Fannie Mae, in its sole discretion, may request the documentation in a shorter or longer period of time based upon circumstances at the time.

Fannie Mae will make every effort to work with lenders when extenuating circumstances prevent them from delivering documentation in a timely manner. However, if a lender delays in providing the requested information, Fannie Mae, in its sole discretion, may require indemnification or repurchase (depending on the circumstances of the individual case) of these loans. When a lender has a pattern of extensive delays or unresponsiveness, Fannie Mae may consider this a breach of contract and consider other actions against the lender, up to and including termination.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2023-01	February 01, 2023
Announcement SEL-2022-09	October 05, 2022
Announcement SEL-2019-03	April 03, 2019
Announcement SEL-2019-01	February 06, 2019

D2-1-03, Outcomes of Fannie Mae QC Reviews (11/03/2015)

Introduction

This topic describes the possible outcomes of Fannie Mae QC reviews, including:

- Definition of Origination Defects Under the Remedies Framework
- Criteria for Determining Significant Defects Under the Remedies Framework
- Breach of Mortgage Insurance Policy

Definition of Origination Defects Under the Remedies Framework

Upon completion of a full-file quality control review for loans covered by the remedies framework, Fannie Mae will designate any defect uncovered during that review as one of the following:

- A “finding” is one or more defects that, when considered with other loan features, does not necessitate a change in the price of the loan or result in the loan being unacceptable even if the true and accurate facts about the loan had been known at the time Fannie Mae purchased or securitized the loan.
- A “price-adjusted loan (PAL)” has one or more defects that, when considered with other loan features and based on the facts of the loan as purchased or securitized by Fannie Mae, result in a loan that was otherwise eligible for delivery had the correct data been delivered and LLPA been paid to Fannie Mae by the lender.
- A “significant defect” is one or more defects that either necessitates a change to the price on which the loan was acquired or result in the loan being unacceptable for purchase had the true and accurate information about the loan been known at time of purchase. Loans with findings and PALS are not loans with significant defects.

See A2-3.2-03, Remedies Framework, for additional information about the remedies framework.

Criteria for Determining Significant Defects Under the Remedies Framework

In determining whether there is a significant defect on a loan covered by the remedies framework, Fannie Mae must give due consideration to the severity of the defect. In addition, the defect must relate to one of the following:

Significant Defect Criteria Related To	Examples
the underwriting of the borrower's creditworthiness and capacity	the borrower's income, credit, liabilities, and assets
the borrower's eligibility and qualification	• area median income • first-time homebuyer status • status as lawfully present in the United States
the underwriting criteria related to property or project eligibility	• residential use • condo eligibility
the property appraisal or the physical condition of the property	
a life-of-loan representation and warranty	as described in A2-2-07, Life-of-Loan Representations and Warranties
loan and product terms and criteria	the criteria provided in the *Eligibility Matrix*, such as • LTV ratio, occupancy, credit score, loan purpose, etc. and terms such as • ineligible transaction types • products that may require special lender approval as a prerequisite for delivery • limitations on cash out to borrowers that determines the type of refinance • any negotiated exception or variance
requirements applicable at the time of loan purchase	• no defaults • all taxes and insurance premiums have been paid or escrows established • no modification, encumbrance, subordination, or release of mortgage
the warranties and obligations of the lender regarding the FHFA Suspended Counterparty Program	

Significant Defect Criteria Related To	Examples
the existence, sufficiency, or enforceability of any required insurance or guaranty	
the form and/or execution of Fannie Mae required loan documents, that without which make the loan ineligible for sale or limit the enforceability of the required loan terms	• the *Uniform Residential Loan Application* • power of attorney • a Texas Section 50(a)(6) loan • nonstandard and special purpose documents such as living trusts

Breach of Mortgage Insurance Policy

In the event the defect identified by Fannie Mae also turns out to be a breach of any provision of any mortgage insurance policy issued with respect to a loan, the lender is not released from any breach of the Lender Contract that may result if the mortgage insurance company insuring the loan rescinds, cancels, denies, or curtails the mortgage insurance benefit due to the same or similar acts or omissions that make up the defect.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

D2-1-04, Identifying and Remedying Origination Defects Under the Remedies Framework (08/30/2016)

Introduction

This topic describes the process that Fannie Mae will follow to identify defects and allow corrections and remedies for loans covered by the remedies framework, including:

- Definitions of Remedy and Correction
- Overview of Process

Definitions of Remedy and Correction

The actions that constitute a remedy or a correction for loans covered by the remedies framework are described below.

A “remedy” is an action elected by Fannie Mae to resolve a significant defect pursuant to the Lender Contract in effect at the time of loan purchase. (See A2-3.2-03, Remedies Framework, for additional information.)

A “correction” is an action taken by a lender (typically through delivery of documentation or information to Fannie Mae) that demonstrates that a significant defect

- did not, in fact, exist at the time of loan purchase or securitization; or
- has been corrected in the time frame and manner specified in the Lender Contract such that the defect is no longer considered by Fannie Mae to be a significant defect.

One example of a correction is a “de minimis correction,” which is a minor amount not to exceed $500 (or such higher amount as the lender and Fannie Mae may agree) that, when remitted, refunded, or otherwise provided, corrects or otherwise resolves an identified significant defect. However, a “de minimis correction” cannot be made

- when the correction would result in a specific required minimum borrower contribution not being met, or
- to correct a violation of Fannie Mae’s Charter requirements.

Another example of a correction is the acquisition of required insurance.

Overview of Process

The steps that Fannie Mae and lenders will follow for mortgage loans covered by the remedies framework to identify, correct, appeal, and remedy defects are described below.

Step 1—Identification of Findings, PALs, and Significant Defects

After a full-file quality control review is completed, Fannie Mae will designate any defect(s) as a finding, a PAL, or a significant defect. As a reminder, the scope of the full-file quality control review remains the same for performing loans and non-performing loans.

> **Note**: Fannie Mae also checks mortgage loans for data discrepancies (which could be independent of a full-file quality control review) that may result in the assessment of an LLPA.

- If Fannie Mae designates a defect as a finding, a correction or remedy will not be required. However, a data update may be required.
- If Fannie Mae designates a defect as resulting in a PAL, the lender must pay the applicable LLPA that should have been paid when the mortgage loan was purchased by Fannie Mae had the true and accurate facts about the mortgage loan been known at the time of purchase.
    - Fannie Mae may not demand repurchase of a PAL and the lender may not voluntarily repurchase a PAL.
- If Fannie Mae identifies a significant defect, Fannie Mae will require repurchase of the mortgage loan or may offer the lender a repurchase alternative.

Step 2—Correcting Certain Significant Defects

During the appeal and impasse processes, a lender has the right to provide a correction of any significant defect in the specified time frame and in the manner required by the Lender Contract. Any additional documentation or information that the lender provides is subject to the same standard of quality control review as the initial mortgage file documentation.

In the event that the Lender Contract does not specify the time frame and manner required for the correction of a particular significant defect, Fannie Mae shall determine if the significant defect has been corrected. There may be times when the determination of whether or not a defect has been corrected cannot be determined by Fannie Mae, but rather needs to be determined by the purchaser of an acquired property, its title insurer or the investor of the purchaser's mortgage loan. For example, the determination of whether there has been a correction of a certain title defect may hinge on whether the purchaser of the acquired property is willing to pay full market value for the subject property, given the title defect and the steps taken to attempt to correct the title defect.

The documentation submitted to correct a significant defect must be based on information or data that either:

- was available at the time of underwriting (and no later than the note date), or
- covers the time of underwriting so long as such evidence meets the applicable documentation requirements set forth in the Lender Contract.

> **Note**: Lenders have the ability to correct defects during the appeal and impasse processes related to property, flood, or mortgage insurance.

If the lender does not repurchase the loan or perform any repurchase alternative in accordance with the Lender Contract, the lender continues to have the obligation to correct any significant defect in accordance with the Lender Contract.

Step 3—Fannie Mae Review of Lender Response and Mortgage Loan Reassessment

During the appeal and impasse processes, Fannie Mae will conduct a mortgage loan reassessment by reviewing any corrections submitted by the lender in accordance with the applicable Lender Contract in order to determine whether a significant defect still exists.

If, following the reassessment, Fannie Mae determines that

- the lender submitted documentation and/or information or took all necessary steps to correct all significant defects in accordance with the Lender Contract, Fannie Mae will rescind or close out, as applicable, the demand.
- the lender corrected some, but not all, of the significant defects that had been identified on a mortgage loan, Fannie Mae will reaffirm the demand and the lender must comply with the demand on a timely basis.
- all significant defects were corrected but any remaining defects now cause the mortgage loan to be a PAL, or the loan is now determined to be a PAL, the lender must pay Fannie Mae the LLPA that should have been paid when the mortgage loan was purchased by Fannie Mae had the true and accurate facts about the mortgage loan been known at the time of purchase.
- it cannot determine if all significant defects were corrected because the decision is up to the purchaser of the acquired property, Fannie Mae may defer its determination until the subject property has been placed on the market in order to obtain feedback on the marketability of the title of the subject property.

At any time during the appeals process, a lender has the right to propose a repurchase alternative following the identification of a significant defect. Fannie Mae will in good faith consider and respond to the lender's proposed repurchase alternative.

Fannie Mae may offer or decline to offer the lender certain repurchase alternatives based on the lender's counterparty status to the extent there are future obligations required as part of the repurchase alternative. Other factors to be considered by Fannie Mae may include, but are not limited to, the failure to maintain a quality loan origination process and the lender's ability and willingness to comply with other provisions of the Lender Contract.

Step 4—Range of Possible Outcomes

As described in A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility, certain loans may be eligible for enforcement relief under Version 2 of the framework based on the satisfactory conclusion of a full-file quality control review. The designation of a defect and the loan's status as corrected or remedied will determine whether a loan is eligible for enforcement relief, as detailed below.

Finding: If the loan has had a full-file quality control review completed with only findings discovered, the loan is eligible for enforcement relief subject to any life-of-loan representations and warranties. If a loan has not had a full-file quality control review, it may still receive relief through other provisions under the framework.

PAL: If the PAL has had a full-file quality control review completed without the identification of any significant defects, the loan will receive enforcement relief subject to any life-of-loan representations and warranties, when the lender pays the LLPA. Loans that have not had a full-file quality control review, will not receive representation and warranty enforcement relief, even upon the payment of an LLPA, but may still receive relief through other provisions under the framework.

A lender may appeal a PAL designation. The appeals process for a PAL will result in one of the following outcomes:

- rescission of the request for the payment of the LLPA, or
- payment of the LLPA.

Significant Defect: If the loan with a significant defect has had a full-file quality control review, it will receive enforcement relief if

- all significant defects have been corrected; or
- a repurchase alternative has been offered and accepted, and fully executed and completed by the lender in compliance with any related terms, including the expiration of all applicable time frames.

The appeal process for mortgage loans with significant defects may result in a range of outcomes, including:

- rescission or close out, as appropriate, of the demand because all significant defects have been corrected;
- a deferred demand in the event that Fannie Mae cannot determine whether or not there has been a correction because the purchaser of the subject property or its title company or investor is the real party in interest to make the decision as to whether a title defect has been corrected;
- agreement on a repurchase alternative; or

- the lender fulfills the demand.

If a repurchase alternative is offered on a loan with a significant defect, the lender can conclude that a full-file quality control review has been completed. However, if a repurchase alternative is offered on a loan where a lender self-reports a defect, the lender cannot conclude that a full-file quality control review has occurred nor is representation and warranty relief granted.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

Part E, Quick Reference Materials

Introduction

This part provides reference materials to support this Guide.

Chapter E-1, Selling Guide Resources

Introduction

This chapter provides resources to support this Guide.

E-1-01, References to Fannie Mae's Website (04/05/2023)

Introduction

The following table contains a list of key documents and Web pages that are referenced in this Guide or that lenders may find helpful. Lenders must obtain the documents listed below from Fannie Mae's website (or any successor site).

Name	Location
Area Median Incomes	https://ami-lookup-tool.fanniemae.com/amilookuptool/ https://singlefamily.fanniemae.com/media/document/xlsx/income-eligibility-census-tract-lookup-spreadsheet
Appraiser Independence Requirements	https://singlefamily.fanniemae.com/media/document/pdf/appraiser-independence-requirements-air
Condo Project Manager (CPM)	https://singlefamily.fanniemae.com/applications-technology/condo-project-manager
Desktop Underwriter Job Aids	https://singlefamily.fanniemae.com/job-aid/new-desktop-underwriter/topic/welcomenew.htm
Eligibility Matrix	https://singlefamily.fanniemae.com/media/document/pdf/eligibility-matrix-current
Fannie Mae Connect	https://singlefamily.fanniemae.com/applications-technology/fannie-mae-connect
Fannie Mae Requirements for Document Custodians (RDC guide)	https://singlefamily.fanniemae.com/media/document/pdf/requirements-document-custodians
Guide to Delivering eMortgage Loans to Fannie Mae	https://singlefamily.fanniemae.com/media/document/pdf/guide-delivering-emortgage-loans-fannie-mae
Homeownership Education	https://singlefamily.fanniemae.com/originating-underwriting/mortgage-products/homeownership-education
Loan Limits for Conventional Mortgages	https://singlefamily.fanniemae.com/originating-underwriting/loan-limits
Loan-Level Price Adjustment (LLPA) Matrix	https://singlefamily.fanniemae.com/media/document/pdf/llpa-matrix-pdf
Loan Quality Connect	https://singlefamily.fanniemae.com/applications-technology/loan-quality-connect

Name	Location
Mortgage-Backed Securities	https://capitalmarkets.fanniemae.com/mortgage-backed-securities
Mortgage Fraud Prevention	https://singlefamily.fanniemae.com/mortgage-fraud-prevention
Mortgage Products	https://singlefamily.fanniemae.com/originating-underwriting/mortgage-products
Pricing & Execution	https://singlefamily.fanniemae.com/pricing-execution
Seller/Servicer-Initiated Post-Purchase Adjustments	https://singlefamily.fanniemae.com/servicing/sellerservicer-initiated-post-purchase-adjustments
Single-Family MBS Prospectuses & Related Documents	https://capitalmarkets.fanniemae.com//mortgage-backed-securities/mbs-prospectuses
Special Feature Codes	https://singlefamily.fanniemae.com/media/document/pdf/special-feature-codes
Standard ARM Plan Matrix	https://singlefamily.fanniemae.com/media/document/pdf/standard-arm-plan-matrix
Uniform Collateral Data Portal (UCDP)	https://singlefamily.fanniemae.com/applications-technology/uniform-collateral-data-portal
Uniform Loan Delivery Dataset (ULDD)	https://singlefamily.fanniemae.com/delivering/uniform-mortgage-data-program/uniform-loan-delivery-dataset

E-1-02, List of Contacts (06/07/2023)

Introduction

This topic contains contact information for Fannie Mae and other resources referenced in this Guide.

Name	**Contact Information**	**Purpose**
Capital Markets Operations Trade Confirmations Allocations	800-752-4233 or 202-243-5423 Fax: 240-699-3890 202-752-5384 Fax: 202-752-3439	For verifying MBS trade information For communicating TBA pool notifications and trade pair-offs

Name	**Contact Information**	**Purpose**
Capital Markets Pricing and Sales Desk	800-752-0257 (Whole Loan and MBS) 866-944-3863 (Early Funding) 202-752-7875 (Structured Transaction Group)	For trading MBS, selling whole loans, hedging pipelines, obtaining best execution information, and other related inquiries
Changes in Lender Organization	organization_change@fanniemae.com	To send Fannie Mae advance written notice of any contemplated major changes in the lender's organization.
Condo Project Manager (CPM) Management Team	cpm_manage@fanniemae.com	For inquiries related to CPM.
Custodian Oversight and Monitoring	custodian_oversight@fanniemae.com 2000 Opportunity Way, Reston VA 20190	For inquiries about document custody or for requests to move loans from one custodian to another
Customer Support (Single-Family Technology Support)	800-2FANNIE (800-232-6643) 800–917–9291 (Uniform Collateral Data Portal)	For subscription inquiries; technical, billing, reporting, and registration inquiries for licensed users of Fannie Mae technology products and services
Defense Manpower Data Center	https://mla.dmdc.osd.mil/mla/#/home	To obtain verification of employment for military personnel
Digital Data Control Team - LQC	DDC_inventory@fanniemae.com Fannie Mae Loan Quality Center Granite Park VII 5600 Granite Parkway Plano, TX 75024	For inquiries related to loan file and documentation submissions.
Fannie Mae Assignment Address	Fannie Mae Mail Drawer: Assignments 1100 15th Street, NW Washington, DC 20005	For assignments
Fannie Mae Credit Portfolio Management	Granite Park VII 5600 Granite Parkway Plano, Texas 75024 800-2FANNIE (800-232-6643)	For information related to servicing mortgage loans.

Name	**Contact Information**	**Purpose**
Fannie Mae Ethics	email: fm_ethics@fanniemae.com Phone: 888-FM-ETHICS(888–363–8442 Web: https://www.fanniemae.com/fmethics	For reporting penalties (civil or criminal) or enforcement actions for compliance failures or violations related to anti-money laundering requirements.
Fidelity Bond and Errors and Omissions	fidelity_bond_and_errors_and_omissions_claims@fanniemae.com	For reporting fidelity bond and errors and omissions losses and policy changes
Fannie Mae Websites	https://singlefamily.fanniemae.com	For information about Fannie Mae's single-family mortgage business solutions and doing business with Fannie Mae
	http://www.fanniemae.com/portal/index.html	Corporate website
Fixed-Income Investor Helpline	800-2FANNIE (800-232-6643)	For information related to fixed-income securities, including MBS, debentures, and preferred stock
Fannie Mae Offices	https://www.fanniemae.com/about-us/contact-us	To connect with us by mail, email, or phone
Lender Eligibility and Compliance Unit	Fannie Mae Lender Eligibility and Compliance Unit audited_financial@fanniemae.com	For submission of financial reports
Loan Quality Center (LQC) Digital Data Control Team LQC File Receipt and Assignment	DDC_inventory@fanniemae.com Fannie Mae Loan Quality Center Granite Park VII 5600 Granite Parkway Plano, TX 75024	For inquiries related to loan file and/or documentation submissions.
MERS Program Office	mers_users@fanniemae.com	To notify Fannie Mae of the termination of a seller/servicer's relationship with MERS
Mortgage Fraud Reporting	https://fims.secure.force.com/MorgageFraudReport/ 800-2FANNIE (800-232-6643)	To report suspected fraudulent mortgage activities and suspicious activity related to Fannie Mae business activities
Mortgage Operations	For less than 50 adjustments: LSDU Loan Servicing Data Utility For more than 50 adjustments: post_purchaseadjustments@fanniemae.com	To request post-purchase adjustments

Name	**Contact Information**	**Purpose**
Mortgage Record Change Form Address	Fannie Mae Attn: Government Claims Manager Granite Park VII 5600 Granite Parkway Plano, Texas 75024 or P.O. Box 650043 Dallas, TX 75265-0043	The Fannie Mae address that must be completed on the Mortgage Record Change Form (HUD Form 92080)
Onboarding Team	sellerservicer_react@fanniemae.com	To obtain reactivation requirements after a seller or servicer has been terminated
Project Eligibility Review Service (PERS) Project Submission	pers_projects@fanniemae.com	To submit a complete PERS package via email, including all relevant supporting documentation.
Privacy Office	privacy_workinggroup@fanniemae.com	To request permission to use Fannie Mae's name or to provide written notice of a data breach
Registration and Account Management	Registration and Account Management on Fannie Mae's website: https://singlefamily.fanniemae.com/applications-technology/technology-manager Technology_Registration@fanniemae.com	To obtain the Software Subscription Agreement and other technology registration forms
Servicing Solutions Center	servicing_solutions@fanniemae.com 800-2FANNIE(800-232-6643) Option 1, Option 3	For general servicer questions: case specific; servicing-related; loss mitigation; Home Affordable Modification-related questions
Single-Family Certification and Custody Team	certification_sf@fanniemae.com 1-800-2FANNIE (800-232-6643) Option 1, Option 5	For assistance with document certification and bailee letter information
Single-Family Loan Delivery and Acquisitions Team	acquisitions_loan_delivery@fanniemae.com 1-800-2FANNIE (800-232-6643) Option 1, Option 4	For assistance with loan delivery related questions or for submission of Form 360 and Form 482
Single-Family Lender Approval	https://singlefamily.fanniemae.com/become-fannie-mae-seller-or-servicer	For application to become a Fannie Mae-approved seller or servicer and obtain an MSSC
Triparty Wiring Instructions	acquisitions_loan_delivery@fanniemae.com	For delivering executed *Triparty Wiring Instruction Agreements*

Name	**Contact Information**	**Purpose**

Trust Agreement and Prospectus Requests	800-2FANNIE (800-232-6643)
	`Fannie Mae Attn: Fixed`
	`Income Investor Marketing`
	`1100 15th Street, NW`
	`Mailstop 2H-3S/17`
	`Washington, DC 20005`
		To obtain the Trust Agreement, Prospectus, and related Prospectus Supplement

U.S. Department of Education Federal Student Aid website	https://studentaid.ed.gov/sa/types/loans/interest-rates	To obtain current prevailing student loan interest rates

E-1-03, List of Lender Contracts (08/05/2020)

Introduction

The following list summarizes the major contracts lenders must have in order to do business with Fannie Mae. It is intended to assist lenders in knowing the Fannie Mae contractual requirements that exist, but is not inclusive of all contracts that may be required.

- Lender Contracts

Lender Contracts

The following table summarizes the major contracts lenders must have in order to do business with Fannie Mae:

Contract Name	Purpose	How to Obtain it
Mortgage Selling and Servicing Contract (MSSC) (and Addenda)	For all lenders that sell loans to Fannie Mae or service loans on Fannie Mae's behalf. The MSSC may include special approvals for lenders to deliver certain types of mortgage loans (for example, second mortgages, eMortgages, HomeStyle, and co-op share loans).	How to Become a Fannie Mae Seller/Servicer
Software Subscription Agreement (and applicable Schedules)	Required for lenders to obtain access to any of Fannie Mae's technology applications. Lenders must also sign one or more schedules to obtain access to specific applications.	Technology Registration Forms
Single-Family Servicing Applications Order Form/Schedule	Completed the first time the lender applies for a single-family servicing application and is incorporated into the lender's Software Subscription Agreement.	Technology Registration Forms
Single-Family Shipping and Delivery Applications Order Form/Schedule	Completed the first time the lender applies for a single-family shipping and delivery application and is incorporated into the lender's Software Subscription Agreement.	Technology Registration Forms

Contract Name	Purpose	How to Obtain it
Desktop Underwriter Order Form/Schedule	Completed the first time the lender applies for access to Desktop Underwriter and is incorporated into the lender's *Software Subscription Agreement.*	Fannie Mae customer account team
Technology Manager Administration Registration Form (Lender)	Used to designate the lender's Corporate Administrator and User Administrator.	technology_registration@fanniemae.com or the Customer Contact Center at 1-800-2FANNIE (1–800–232–6643)
Early Funding Contracts • As Soon As Pooled Sale Agreement • As Soon As Pooled Plus Funding Agreements	Outlines contractual terms for delivering whole loans or pools to Fannie Mae using Early Funding products.	Capital Markets Pricing and Sales Desk (see E-1-02, List of Contacts)

Chapter E-2, Exhibits

Introduction

This chapter contains the exhibits referenced within this Guide.

E-2-01, Required Custodial Documents (05/04/2022)

Introduction

This exhibit contains information on the custodial documents required for all mortgages.

- Required Custodial Documents

Required Custodial Documents

Custodial documents are the legal documents pertaining to a mortgage that the document custodian takes into physical possession when Fannie Mae purchases or securitizes a mortgage.

The following mortgage documents (when applicable) are required for all mortgages.

Requirement	Description
Cover letter	A document that contains the following: • lender name and contact information; • lender loan number; • property address; and • a list of the documents that are being included in the submission package (documents listed below).
Note	The original note endorsed “in blank” and without recourse and there is no break in the chain of endorsements. For MERS registered loans, the MIN should be added to the upper right-hand corner of the note and must be part of the electronic data delivery. The MIN must be registered prior to delivery.
Modifications	Originals of any instruments that modify the terms and conditions of the mortgage note (such as a modification agreement or an ARM addendum).
Repair rider	A Repair Rider or Addendum if a set-aside for repairs is required.
Power of attorney	A copy of the applicable power of attorney, if an attorney-in-fact signed the mortgage note (or any other acceptable alternative for the mortgage note) on a borrower’s behalf. If applicable law requires an original power of attorney for enforcement or foreclosure purposes, the document custodian must hold the original rather than a copy. If applicable law requires recordation of the power of attorney, it must be recorded. The name(s) on the power of attorney must match the name(s) on the note and must be dated such that it was valid at the time the note was executed. The power of attorney must be notarized. If a power of attorney is used because the lender determines such use is required by applicable law, the lender must include a written statement that explains the circumstances.
Name affidavit	A name affidavit, if the borrower signed under an “also known as (AKA) name” or used a signature that significantly differs from the typed name.

Requirement	Description
Co-op documentation	All applicable documentation required by Fannie Mae for a co-op share loan in the jurisdiction in which the co-op project is located. (Contact a Fannie Mae customer account team for specific documentary requirements.)
New York CEMA	For a New York mortgage transaction that uses Form 3172, the executed and original Consolidated Note, the executed and recorded original of the CEMA and all exhibits to it (or a certified copy if the original is not yet available), and all required mortgage assignments. (Delivery of the original notes listed on the CEMA's Exhibit A (the "Gap Note" and other prior notes) to the document custodian is not required, but the lender must maintain possession of all the Exhibit A original notes. For more information about use of the CEMA, refer to the instructions that are part of the form.)
Indian guarantee certificate	The Indian Loan Guarantee Certificate (HUD Form 53039), for a HUD Section 184 mortgage.
Participation loans certificate	Two originals of the executed *Participation Certificate* (Form 638), for a delivery of a participation interest in a group of participation pool mortgages.
Facsimile signatures	Facsimile signature language, as applicable. If a mortgage (or deed of trust) note is endorsed by facsimile signature, a certified copy of the endorsing entity's corporate resolution authorizing specific officers by name or title to use facsimile signatures is acceptable.For additional requirements for the use of facsimile signatures, see B8-3-04, Note Endorsement.
Notes signed by trustee	If the loan indicates that it is a part of a trust, it must be signed by the borrower as both the individual and trustee. The signatures can be on two separate lines or on one line, clearly indicating signature as trustee and individual.
Renovation Loan Agreement	For HomeStyle Renovation loans with recourse, the model *Renovation Loan Agreement* (Form 3731) or its equivalent are required. See B5-3.2-06, HomeStyle Renovation: Renovation Contract, Renovation Loan Agreement, and Lien Waiver.

The document package must be sent via overnight mail, express delivery (first delivery time), on the same day the lender submits the loan data to Loan Delivery. Clearly label As Soon As Pooled loan packages with "ASAP." Do not staple one document to another and do not include any mortgages, deeds of trust, title insurance policies, or appraisals.

Loan packages must be assembled in the following manner:

- Cover letter;
- Form 1068, Form 1069, or Form 2005, if available;
- All loans together in one continuous stack with each individual document stapled when more than one page is present;
- Loans must be in the exact order in which they were transmitted to Loan Delivery;
- Each loan's documents should be placed in the following order:
    - Loan modification agreement (if applicable),
    - Note,
    - Allonge affixed to the note (if note is not blank endorsed), and
    - Other ancillary documents (power of attorney, CEMA documents, co-op documents, etc.)

E-2-02, Suggested Format for Phase I Environmental Hazard Assessments (06/28/2011)

Introduction

This exhibit provides the suggested format for Phase I environmental hazard assessments.

I. PROPERTY LOG

Project Name:
Property Address:

Developer/Sponsor Name:
Developer/Sponsor Address:
Developer/Sponsor Telephone:
Lender Name:
Lender’s Underwriter’s Name:
Environmental Consultant:
Consultant’s Firm Name:
Consultant’s Firm Address:
Consultant’s Telephone:
Date Phase I Assessment Completed:
Date Phase II Assessment Completed:

II. SUMMARY OF PHASE I ASSESSMENT RESULTS/RECOMMENDATIONS

1.	Check applicable result for each hazard, indicating for each “Fail” whether (1) there is a possible remedy or (2) whether a Phase II assessment is needed.			
	Hazard	***Pass***	***Fail***	***Possible Remedy***
	Waste Sites			
	PCBs			
	Radon			
	Underground Storage Tanks			

	Asbestos			
	Other (List)			
	__________			
	__________			
2.	Attach a brief explanation for each hazard that needs a Phase II assessment. List all data deficiencies, test results, etc., that require further assessment.			
3.	Attach a brief explanation for each failed hazard that could be corrected by taking remedial actions. Explain what actions are required and how they should be performed.			
4.	Underwriter’s Comments (Attach Phase I Information Checklist):			
	Signature: ____________________________			Date: _______________

III. INFORMATION CHECKLIST: INFORMATION SOURCES

Check the information sources used to perform the various aspects of the Phase I environmental hazard assessment.

1. Overall Property Description			
	Building Specifications		Lists of Commercial Tenants Previously On-Site
	Historical Aerial Photos		Verification of Public Water and Sewer
	Current Aerial Photos		Interviews with Local Fire, Health, Land Use, or Environmental Enforcement Officials
	Title History		
	Site Survey		

	Neighborhood Zoning Maps		
	Neighborhood Land Use Maps		
	Other (List)		
2. Waste Sites			
	Comprehensive Environmental Response, Compensation, and Liability Information System (CERCLIS) lists or similar state lists of contaminated properties (covering any properties that are within a one-mile radius of the subject property)		
	State Environmental Protection Agency (EPA) site lists of contaminated properties (covering any properties that are within a one-mile radius of the subject property)		
	Site Soil and Groundwater Test Results		
	Other (List)		
3. Polychlorinated Biphenyls (PCBs)			
	Utility Transformer Records		
	Site Survey of Transformers		
	Site Soil and Groundwater PCB Test Results		
	Other (List)		
4. Radon			
	Water Utility Records		
	Gas Utility Records		
	On-Site Radon Test Results		

	Other (List)
5. Underground Storage Tanks	
	Oil, Motor Fuel, and Waste Oil Systems Reports
	Site Soil and Groundwater Tests
	Site Tank Survey
	Comprehensive Environmental Response, Compensation, and Liability Information System (CERCLIS) lists or similar state lists of contaminated properties (covering any properties that are within a one-mile radius of the subject property)
	Other (List)
6. Asbestos (Required only if subject property is the conversion of an existing building)	
	Dated Building Construction/Rehabilitation Specifications
	Engineer's/Consultant's Asbestos Report
	Other (List)

IV. INFORMATION CHECKLIST: EVALUATION OF SPECIFIC HAZARDS

Answer all applicable questions by marking the appropriate box—"Y" for Yes, "N" for No, or "DK" for Don't Know:

A. Waste Sites

	Y	N	DK
1. Are there results of physical testing (including on-site sampling of soil and groundwater that meets all regulatory standards and sound industry practice) to show that the property is free of waste contamination and is being operated in an environmentally safe manner?			

2. Are there any obvious high-risk neighbors in adjacent properties engaged in producing, storing, or transporting hazardous waste, chemicals, or substances?			
Note: If the answer to question 1 is “yes” and the answer to question 2 is “no,” stop here because, for underwriting purposes, the property will be acceptable from the standpoint of waste site contamination. Otherwise, answer the questions below.			
3. Was the site ever used for research, industrial, or military purposes during the last 30 years?			
4. Has any of the site space ever been leased to commercial tenants who are likely to have used, transported, or disposed of toxic chemicals (such as a dry cleaner, print shop, service station, etc.)?			
5. Is water for the building provided by either a private company or a well situated on the property?			
6. Does the property or any site within one mile of the property appear on any state or federal list of hazardous waste sites?			
7. Is there any documented or visible evidence of the handling of dangerous waste on the subject property or on neighboring sites (such as stressed vegetation, stained soil, open or leaking containers, foul fumes or smells, oily ponds, etc.)?			
Note: If the answer to any of the questions from 2 through 7 is “yes” or “don’t know,” then the property either fails or needs a Phase II assessment conducted. If the answers to all of the questions 2 through 7 are “no,” the property, for underwriting purposes, will be acceptable from the standpoint of waste site contamination.			
8. Underwriter’s Comments:			
9. Phase I Assessment Results (check one)			
____ Pass ____ Fail ____ Possible Remedy ____ Phase II Required			

10. Underwriter's Signature and Date:____

B. Polychlorinated Biphenyls (PCBs)

	Y	N	DK
1. Are there any transformers or capacitors that contain PCBs anywhere on the property?			
2. Is there any visible or documented evidence of soil or groundwater contamination from PCBs on the property?			
Note: If the answers to the above questions are "no," stop here because, for underwriting purposes, the property will be acceptable from the standpoint of PCB contamination. If the answer to a question is "don't know," stop here since a Phase II assessment is required. Otherwise, answer the questions below.			
3. If the answer to question 1 above is "yes," are any of the capacitors or transformers inside residential buildings?			
4. If the answer to question 1 above is "yes," are any of the transformers or capacitors not clearly marked, not well maintained, or not secure?			
5. If the answer to question 1 above is "yes," is there any evidence of leakage on or around the transformers or capacitors?			
6. If the answer to question 2 above is "yes," have PCB concentrations of 50 parts per million or greater been found in contaminated soils or groundwater?			
Note: If the answers to questions 3 through 6 are all "no," the property, for underwriting purposes, will be acceptable from the standpoint of PCB contamination. Otherwise, the property either fails or needs a Phase II assessment.			
7. Underwriter's Comments:			
8. Phase I Assessment Results (check one)			

____ Pass ____ Fail ____ Possible Remedy ____ Phase II Required
9. Underwriter’s Signature and Date:

C. Radon

	Y	N	DK
1. Is there any evidence that nearby structures have elevated indoor levels of radon or radon progeny?			
2. Have local water supplies been found to have elevated levels of radon or radium?			
3. Is the property located on or near sites that are currently, or were formerly, used for uranium, thorium, or radium extraction or for phosphate processing?			
Note: If the answers to the above questions are all “yes,” a Phase II assessment is required. If the answers to questions 2 and 3 are “no,” the property, for underwriting purposes, will be acceptable from the standpoint of radon contamination. If the subject property is a conversion of an existing building, go to question 4.			
4. Were the results of an EPA-approved short-term radon test that was performed in the basement of each of the subject buildings within the last six months at or below four picocuries per liter?			
Note: If the answer to this question is “no” or “don’t know,” a Phase II assessment is required.			
5. Underwriter’s Comments:			
6. Phase I Assessment Results (check one)			
____ Pass ____ Fail ____ Possible Remedy ____ Phase II Required			
7. Underwriter’s Signature and Date:			

D. Underground Storage Tanks

	Y	N	DK
1. Is there a current site survey performed by a qualified engineer that indicates the property is free of any underground storage tanks?			
2. Is there any visible or documented evidence of oil or groundwater contamination on the property?			
3. Are there any petroleum storage and/or delivery facilities (including gas stations) or chemical manufacturing plants located on adjacent properties?			
Note: If the answer to question 1 is “yes,” and the answers to questions 2 and 3 are “no,” stop here because, for underwriting purposes, the property will be acceptable from the standpoint of underground storage tank contamination. If the answers to questions 2 or 3 are “yes” or “don’t know,” also stop because the property either fails or needs a Phase II assessment. Otherwise, answer the questions below.			
4. Are there any active underground tank facilities on-site that are used for activities such as motor fuel, waste oil, or fuel oil storage?			
5. If the answer to question 4 is “yes,” have these facilities been maintained in accordance with sound industry standards (such as those in the American Petroleum Institute’s Bulletins 1621 and 1623 or the National Fire Protection Association’s Bulletins 329, 70, 77, etc.)?			
Note: If the answer to question 4 is “no,” go to question 8 below. If the answer to question 4 is “don’t know,” stop here because the property either fails or needs a Phase II assessment. If the answer to question 5 is “no” or “don’t know,” stop here because the property either fails or needs a Phase II assessment. If the answers to questions 4 and 5 are “yes,” answer the questions below.			
6. If the answer to question 4 is “yes,” are any of the tanks more than 10 years old?			

7. If the answer to question 6 is “yes,” have any of the tanks that are more than 10 years old been tested for leaks within the last year using a test approved by the American Petroleum Institute?			
Note: If the answer to question 6 is “no,” answer the questions below. If the answer to question 6 is “don’t know,” stop here because the property either fails or needs a Phase II assessment. If the answer to question 7 is “no,” answer the questions below. Otherwise, stop here because the property either fails or needs a Phase II assessment.			
8. Are there any deactivated underground storage tanks on the property?			
9. If the answer to question 8 is “yes,” were all of the tanks deactivated in accordance with sound industry practices (such as under the American Petroleum Institute’s Bulletins 1604 and 2202 or the National Fire Protection Association’s Bulletin 30)?			
Note: If the answer to question 8 is “no” or if the answer to question 9 is “yes,” the property, for underwriting purposes, will be acceptable from the standpoint of underground storage tank contamination. If the answer to question 8 is “don’t know,” or if the answer to question 9 is “no” or “don’t know,” the property either fails or needs a Phase II assessment.			
10. Underwriter’s Comments:			
11. Phase I Assessment Results (check one)			
____ Pass ____ Fail ____ Possible Remedy ____ Phase II Required			
12. Underwriter’s Signature and Date:			

E. Asbestos

(Required only if the project is a conversion of an existing building)

All asbestos-related assessments, testing, remedial action, and maintenance programs must be in compliance with the Environmental Protection Agency’s document “Guidance for Controlling Asbestos-Containing Materials in Buildings” (EPA 560/5024, 1985)

	Y	N	DK

1. Was the building constructed prior to 1979?			
2. Does a site walk-through reveal any visible evidence of asbestos?			
3. Is there any documented evidence of asbestos?			
Note: If the answer to all of the above questions is “no,” stop here because, for underwriting purposes, the property will be acceptable from the standpoint of asbestos contamination. If the answer to any of the above questions is “yes” or “don’t know,” answer the questions below.			
4. Is there an asbestos survey by a certified, independent firm that was performed since 1979?			
Note: If the answer to question 4 is “yes,” answer the question below. Otherwise, stop because a Phase II assessment is required.			
5. Did the survey find the building to be free of both treated and untreated asbestos-containing material?			
Note: If the answer to question 5 is “yes,” stop here because, for underwriting purposes, the property will be acceptable from the standpoint of asbestos contamination. If the answer to question 5 is “no” or “don’t know,” the property either fails or needs a Phase II assessment.			
6. Underwriter’s Comments:			
7. Phase I Assessment Results (check one)			
____ Pass ____ Fail ____ Possible Remedy ____ Phase II Required			
8. Underwriter’s Signature and Date:			

F. Additional Hazards

(Required only if the project is a conversion of an existing building)

	Y	N	DK

1. Is there any visible or documented evidence of peeling lead paint on the floors, walls, or ceilings of either the unit living areas or the common areas?			
Note: If the answer to question 1 is “no,” the property, for underwriting purposes, will be acceptable from the standpoint of lead paint contamination; however, answer the questions below related to other hazards. If the answer to question 1 is “yes” or “don’t know,” the property fails. However, answer the remaining questions since the project may be eligible if remedial actions to remove or cover all peeling lead paint are taken before the lender requests Fannie Mae's project approval.			
2. Do the unit living areas or common areas contain urea-formaldehyde foam insulation that was installed less than a year ago?			
3. If the answer to question 2 is “yes” or “don’t know,” did the current heating, ventilation, and air conditioning system meet the standards of the American Society of Heating, Refrigerating, and Air Conditioning Engineers when it was installed?			
Note: If the answer to question 2 is “no” or the answer to question 3 is “yes,” the property, for underwriting purposes, will be acceptable from the standpoint of urea-formaldehyde foam insulation contamination. However, answer the remaining questions. If the answer to question 3 is “no” or “don’t know,” the property fails. However, answer the remaining questions since the project may be eligible if the lender can demonstrate that the ventilation system meets the American Society of Heating, Refrigerating, and Air Conditioning Engineer’s standards before it requests Fannie Mae's project approval.			
4. Does the local utility providing the drinking water meet current EPA requirements for lead concentration?			
5. Underwriter’s Comments:			
6. Phase I Assessment Results (check one)			
____ Pass ____ Fail ____ Possible Remedy ____ Phase II Required			
7. Underwriter’s Signature and Date:			

E-2-03, Revocable Trust Rider (Sample Language) (01/17/2013)

Introduction

This rider may be used for California mortgages. It may need to be modified to reflect the requirements of other specific states.

- DEFINITIONS USED IN THIS RIDER

DEFINITIONS USED IN THIS RIDER

(A) "Revocable Trust." The ____________________________________ [Complete Legal Name of Trust] Trust created under trust instrument dated ________________, ______.

(B) "Revocable Trust Trustees." ________________________________ trustee(s) of the Revocable Trust.

(C) "Revocable Trust Settlor(s)." _______________________________ settlor(s) of the Revocable Trust signing below.

(D) "Lender." ___________________________________.

(E) "Security Instrument." The Deed of Trust and any riders thereto of the same date as this Rider given to secure the Note to the Lender of the same date and covering the Property (as defined below).

(F) "Property." The property described in the Security Instrument and located at _________________________________ [Property Address].

THIS REVOCABLE TRUST RIDER is made this ______ day of ______, and is incorporated into and shall be deemed to amend and supplement the Security Instrument. ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, the Revocable Trust Trustee(s), the Revocable Trust Settlor(s), and the Lender further covenant and agree as follows: ADDITIONAL BORROWER(S) The term "Borrower" when used in the Security Instrument shall refer to the Revocable Trust Trustee(s), the Revocable Trust Settlor(s), and the Revocable Trust, jointly and severally. Each party signing this Rider below (whether by accepting and agreeing to the terms and covenants contained herein and agreeing to be bound thereby, or both) covenants and agrees that, whether or not such party is named as "Borrower" on the first page of the Security Instrument, each covenant and agreement and undertaking of the "Borrower" in the Security Instrument shall be such party's covenant and agreement and undertaking as "Borrower" and shall be enforceable by the Lender as if such party were named as "Borrower" in the Security Instrument. BY SIGNING BELOW, the Revocable Trust Trustee(s) accepts and agrees to the terms and covenants contained in this Revocable Trust Rider. ________________________________, Trustee of the ____________________ ___________________________ [Complete Legal Name of Trust] Trust under trust instrument dated _______, ______. ________________________________, Trustee of the ____________________ ___________________________ [Complete Legal Name of Trust] Trust under trust instrument dated _______, ______. BY SIGNING BELOW, the undersigned Revocable Trust Settlor(s) acknowledges all of the terms and covenants contained in this Revocable Trust Rider and agrees to be bound thereby.

___________________________________ (Seal) — Revocable Trust Settlor

___________________________________ (Seal) — Revocable Trust Settlor

E-2-04, Signature Requirements for Mortgages to Inter Vivos Revocable Trusts (02/27/2018)

Introduction

This exhibit describes signature requirements for mortgages to revocable trusts, including:

- Signature Requirements for California
- Use of a Signature Addendum to Note for Mortgages to Inter Vivos Revocable Trusts
- Form of Signature Required on Mortgage Note for an Institutional Trustee and for an Individual Trustee Who Is Not Both a Settlor and a Credit Applicant
- Form of Signature Required on Mortgage Note for an Individual Trustee Who Is Both a Settlor and a Credit Applicant
- Form of Signature Required on Security Instrument for All Trustees
- Form of Settlor/Credit Applicant's Signature Acknowledgment Required on Security Instrument
- Optional Limitation on Trust Liability
- Example Signature Requirements for Inter Vivos Revocable Trusts

Signature Requirements for California

The forms of signature shown below are appropriate for California mortgages. Under California law, the term "settlor" refers to the individual(s) establishing the trust; therefore, Fannie Mae uses this terminology in the signature forms and in their related instructions. Fannie Mae has also used the term "credit applicant" to refer to an individual whose credit is used to qualify for the mortgage. A lender that originates mortgages to *inter vivos* revocable trusts secured by properties in a state other than California is responsible for making any modifications (including the use of different terminology, if appropriate) needed to conform these signature forms to those that are customary for that state and will be held fully accountable for the use of any invalid signature form(s).

Use of a Signature Addendum to Note for Mortgages to Inter Vivos Revocable Trusts

Fannie Mae prefers that all signatures appear on the note itself; however, in certain situations the lender may decide that using a separate attachment for some of the signatures on the note is warranted. (An example is if there is not room for all of the signatures on the note itself.) In these situations, the lender may use a separate attachment or addendum (sometimes referred to as an allonge) for the borrower signatures, so long as the following requirements are met:

- All individual borrower(s) must sign the note itself; lenders may use a signature addendum for trustee signatures.
- The form and content of the signature addendum used must comply with all applicable state, local and federal laws governing the use of an allonge and result in an enforceable and proper signature on the note.
- The addendum must be permanently affixed to the related note and must clearly identify the note by referencing at least the name of the borrower, the date of the note, the amount of the note, and the address of the security property.
- The note must clearly and accurately reference the attached signature addendum.
- Fannie Mae's status as a "holder in due course" must not be impaired.

The lender must indemnify Fannie Mae (as described in A2-1-03, Indemnification for Losses), for any losses incurred by Fannie Mae as a result of the use of a signature addendum.

Form of Signature Required on Mortgage Note for an Institutional Trustee and for an Individual Trustee Who Is Not Both a Settlor and a Credit Applicant

Each institutional trustee of the inter vivos revocable trust and each individual trustee of the *inter vivos* revocable trust who is not both a settlor and a credit applicant must sign the mortgage note (and any necessary addendum), using a signature block substantially similar to the following, inserted in the Borrower's Signature lines:

> ______________________________, as Trustee of the ________ [Complete Legal Name of Trust] Trust under trust instrument dated _______________, _________.

Form of Signature Required on Mortgage Note for an Individual Trustee Who Is Both a Settlor and a Credit Applicant

Each individual trustee of the *inter vivos* revocable trust who is both a settlor and a credit applicant must sign the mortgage note (and any necessary addendum), using a signature block substantially similar to the following, inserted in the Borrower's Signature lines:

> ________________________________, individually and as Trustee of the ________ [Complete Legal Name of Trust] Trust under trust instrument dated ____________, _________.

Form of Signature Required on Security Instrument for All Trustees

Each trustee of the *inter vivos* revocable trust must sign the security instrument (and any necessary rider), using a signature block substantially similar to the following, inserted in the Borrower's Signature lines:

> ______________________________, as Trustee of the ________ [Complete Legal Name of Trust] Trust under trust instrument dated _______________, _________.

Form of Settlor/Credit Applicant's Signature Acknowledgment Required on Security Instrument

The following must be added to the security instrument (and any necessary rider) following the Borrower's Signature lines (and then must be signed by each settlor of the *inter vivos* revocable trust who is a credit applicant):

> BY SIGNING BELOW, the undersigned, Settlor(s) of the______________________ [Complete Legal Name of Trust] Trust under trust instrument dated _________, _____________, acknowledges all of the terms and covenants contained in this Security Instrument and any rider(s) thereto and agrees to be bound thereby. ________________________________ (Seal) Trust Settlor.

Optional Limitation on Trust Liability

Whenever the trustee of an *inter vivos* revocable trust is required to execute the note on behalf of such trust, in accordance with B8-5-02, Inter Vivos Revocable Trust Mortgage Documentation and Signature Requirements, language substantially similar to the following may be added to such trustee's signature:

...but solely for the limited purpose of supporting the Trust's granting of a lien in the property pursuant to the Security Instrument. The foregoing Trust has no personal obligation hereunder for payment of any sums secured by the Security Instrument.

Example Signature Requirements for Inter Vivos Revocable Trusts

The following table provides guidance on how the note and the security instrument should be executed in various situations, including those involving *inter vivos* revocable trusts.

Borrower(s) (Credit Qualifying)	Property Owner(s) (On Title or by Operation of Law)	Note Signature(s)	Security Instrument Signature(s)
Individual A	Individual A	Individual A	Individual A
Individual A	Individual B	INELIGIBLE	INELIGIBLE
Individual A	Individual B + Other Individual(s) (Other than Individual A)	INELIGIBLE	INELIGIBLE

Borrower(s) (Credit Qualifying)	Property Owner(s) (On Title or by Operation of Law)	Note Signature(s)	Security Instrument Signature(s)
Individual A	Individual A + Other Individual(s)	Individual A	Individual A + Other Individual(s)
Individual A + Other Individual Borrower(s)	Individual A	Individual A + Other Individual Borrower(s)	Individual A
Individual A + Other Individual Borrower(s)	Individual A + Other Individual(s)	Individual A + Other Individual Borrower (s)	Individual A + Other Individual(s)
Individual A	Individual A (+ Other Individual(s)) + Qualified IVR Trust(s)	Individual A	Individual A (+ Other Individual(s)) + Qualified IVR Trust(s)
Individual A + Other Individual Borrower(s)	Named Individual Borrower(s) (+ Other Individual(s)) + Qualified IVR Trust(s)	Individual A + Other Individual Borrower(s)	Named Individual Borrower(s) (+ Other Individual(s)) + Qualified IVR Trust(s)
Individual A	Qualified IVR Trust(s)	Individual A + Qualified IVR Trust(s) (Optional Non-Recourse)	Qualified IVR Trust(s)
Individual A + Other Individual(s)	Qualified IVR Trust(s)	Individual A and Other Individual(s) + Qualified IVR Trust(s) (Optional Non-Recourse)	Qualified IVR Trust(s)

Borrower(s) (Credit Qualifying)	Property Owner(s) (On Title or by Operation of Law)	Note Signature(s)	Security Instrument Signature(s)
Individual A	Qualified IVR Trust(s) + Individual(s) Other than Individual A	Individual A + Qualified IVR Trust(s) (Optional Non-Recourse)	Qualified IVR Trust(s) + Individual(s) Other than Individual A
Individual A + Other Individual Borrower(s)	Qualified IVR Trust(s) + Individual(s) Other than Individual A and Other Individual Borrower(s)	Individual A and Other Individual Borrower(s) + Qualified IVR Trust(s) (Optional Non-Recourse)	Qualified IVR Trust(s) + Individual(s) Other than Individual A and Other Individual Borrowers
Any Trust(s) (including a Qualified IVR Trust)	Any Persons	INELIGIBLE	INELIGIBLE

> **Note:** A "qualified" *inter vivos* revocable trust must have been established by an individual borrower whose credit was used to qualify for the mortgage loan. If multiple *inter vivos* revocable trusts are involved, each such trust must be "qualified" in relation to at least one individual borrower in accordance with the *Selling Guide.*

E-2-05, Servicing Marketplace — Mortgage Loan Servicing Purchase and Sale Agreement (12/15/2021)

Introduction

This SERVICING MARKETPLACE - MORTGAGE LOAN SERVICING PURCHASE AND SALE AGREEMENT (this "Agreement"), is by and between a seller that sells the Mortgage Loan (as defined below) to Fannie Mae ("Seller"), and a servicer approved by Fannie Mae to service the Mortgage Loan sold to Fannie Mae ("Servicer").

- RECITALS
- 1. Definitions

RECITALS

WHEREAS, Seller commits and sells Mortgage Loans pursuant to Fannie Mae's whole loan committing application;

WHEREAS, pursuant to the whole loan committing application, Seller may release and sell the Servicing Rights (as defined below) to approved loan servicers concurrently with the sale of the Mortgage Loan to Fannie Mae via the Servicing Marketplace ("SMP");

WHEREAS, pursuant to the whole loan committing application and the Purchase Documents (as defined below), Seller will sell the Mortgage Loan to Fannie Mae;

WHEREAS, concurrent with such sale and pursuant to SMP, Seller will sell and transfer, and Servicer will purchase and accept, the Servicing Rights to the Mortgage Loan;

WHEREAS, Seller and Servicer agree that each such sale and transfer of Servicing Rights to the Mortgage Loan will be governed by the terms of this Agreement and, through their agreements with Fannie Mae to participate in SMP and their access to and use of SMP (either directly or indirectly through the whole loan committing application) to transact business with each other, they have agreed to be bound by this Agreement, as amended from time to time, with regard to each such sale and transfer of the Servicing Rights; and

WHEREAS, Seller has entered into the Purchase Documents with Fannie Mae which set forth, among other things, Fannie Mae's right to enforce remedies with respect to any breach of Selling Representations and Warranties (as defined below) with respect to Mortgage Loans sold by Seller to Fannie Mae pursuant to the whole loan committing application.

WHEREAS, Servicer will acquire the Servicing Rights in accordance with the terms and conditions of this Agreement and Servicer will service such Mortgage Loans in accordance with the Servicing Documents (as defined below) it has entered into with Fannie Mae.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Servicer agree to the terms and conditions set forth below in this Agreement.

1. Definitions

A capitalized term used in this Agreement shall have the meaning defined in the Guide unless otherwise defined in this Agreement.

1.1. **Agreement. As defined in the preamble.**

1.2. **Applicable Percentage**. The applicable percentage by which the unpaid principal balance of the Mortgage Loans, or an applicable subset thereof, is multiplied in determining the purchase price paid to Seller for the Servicing Rights of the applicable Mortgage Loans, as reflected in SMP, if applicable or available.

1.3. **Business Day**. A day on which Fannie Mae's Capital Markets Pricing and Sales Desk is open for business, which excludes the Securities Industry and Financial Markets Association's (SIFMA's) recommended holidays and early closings.

1.4. **Concurrent Transfer of Servicing**. The transfer of the Servicing Rights related to the Mortgage Loan at the same time Fannie Mae purchases such Mortgage Loan.

1.5. **Fannie Mae**. The Federal National Mortgage Association or any successor thereto.

1.6. **Funding Adjustments**. If, and to the extent applicable or available, for the Mortgage Loan, the escrow deposits, and Net SRP and any holdbacks required by Servicer.

1.7. **Purchase Date**. The date on which Fannie Mae disburses payment to Seller for the Mortgage Loan Fannie Mae purchases. The right of Seller to any portion of the servicing fees or any other fees or income relating to servicing of the Mortgage Loan shall terminate at the close of business on the Purchase Date.

1.8. **Guides**. The Fannie Mae Selling Guide and the Fannie Mae *Servicing Guide*, each as amended, restated, supplemented or otherwise modified from time to time.

1.9. **Litigation**. All legal, regulatory, governmental or administrative actions, suits, claims, investigations and complaints that affect or involve the Mortgage Loan, excluding foreclosure and bankruptcy actions.

1.10. **Mortgage Loan**. The mortgage loan which conforms to all applicable requirements in the Guides and is purchased by Fannie Mae through the whole loan committing application with its Servicing Rights concurrently sold and transferred by Seller to Servicer through SMP.

1.11. **Master Commitment**. The agreement entered into between Seller and Fannie Mae for the sale of the Mortgage Loan.

1.12. **Mortgage Insurance**. A contract with a private mortgage insurer insuring or guaranteeing full or partial payment of principal, interest and related expenses of a Mortgage Loan.

1.13. **Mortgaged Premises**. The real property and improvements located thereon that secure the Mortgage Loan.

1.14. **NET SRP**. The SRP less any administrative fee, tax service fee, flood determination fee, and other fees or adjustments set forth in SMP.

1.15. **Private Mortgage Insurance Policy**. Each private mortgage insurance policy required to be in effect for a specific Mortgage Loan pursuant to the Fannie Mae *Servicing Guide*, or any replacement policy therefore obtained by Seller.

1.16. **Purchase Documents**. Those agreements executed by Seller with respect to the Mortgage Loans, including, without limitation, any Master Commitment, the Mortgage Selling and Servicing Contract, the Guides, any supplemental servicing instructions or directives provided by Fannie Mae, all applicable variances, recourse agreements, repurchase agreements, indemnification agreements, loss-sharing agreements, and any other agreements between Fannie Mae and Seller, and all as amended, modified, restated or supplemented from time to time.

1.17. **Seller**. As defined in the preamble.

1.18. **Selling Representations and Warranties**. The selling representations and warranties required to be made to Fannie Mae by a seller of mortgage loans, including, without limitation, those made pursuant to the Master Selling and Servicing Contract between Seller and Fannie Mae, the Fannie Mae *Selling Guide* and Seller's Master Commitment with Fannie Mae, as the same may be amended or supplemented from time to time.

1.19. **Servicer**. As defined in the preamble.

1.20. **Servicing Documents**. Those agreements executed by Servicer with respect to the Mortgage Loans, including without limitation, the Mortgage Selling and Servicing Contract, the Fannie Mae *Servicing Guide* and any supplemental servicing instructions or directives provided by Fannie Mae, all applicable variances, recourse agreements, repurchase agreements, indemnification agreements, loss-sharing agreements, and any other agreements between Fannie Mae and Servicer, and all as amended, modified, restated or supplemented from time to time.

1.21. **Servicing Rights**. All of Seller's responsibilities, rights, title and interest associated with servicing the Mortgage Loan, as required by Fannie Mae. Such Servicing Rights shall include but not be limited to the contractual right to receive all existing funds in any existing custodial or escrow accounts, incidental income and benefits, amounts payable, such as servicing fees, late fees, assumption fees, and other authorized amounts with respect to the Mortgage Loan and possession and use of the servicing files and records, to the extent applicable, including without limitation, copies of applicable insurance policies, all related to the Mortgage Loan.

1.22. **Servicing Rights Repurchase Amount**. With respect to the Servicing Rights related to any Mortgage Loan or REO property, the sum of (a) the product of (1) the Applicable Percentage, and (2) the then-outstanding unpaid principal balance of such Mortgage Loan, or with respect to REO property, the unpaid principal balance of the related Mortgage Loan at the time of conversion to REO property, (b) any unreimbursed costs, expenses and corporate, servicing, principal and interest advances incurred by Servicer in connection with such Mortgage Loan and its servicing, the transfer of the Servicing Rights to Seller, and if applicable, repurchase and transfer of the related Mortgage Loan from Fannie Mae to Seller, including reasonable attorney's fees and costs, and (c) any and all other costs, expenses, losses, damages, deficiencies, claims, including costs of investigation, attorney's fees and disbursements incurred by Servicer in connection with such Servicing Rights and the related Mortgage Loan, other than to the extent attributable to Servicer's failure to service the related Mortgage Loan in accordance with the terms and conditions of the Servicing Documents.

1.23. **Servicing Transfer Instructions.** The Servicing Marketplace- Servicing Transfer Instructions, describe the submission of required information and completion of applicable forms by Seller for the transfer of servicing for the Mortgage Loan to Servicer, as provided by Servicer and as may be amended from time to time.

1.24 **SRP.** The servicing-released premium calculated by Fannie Mae based upon the rate sheet for the

Mortgage Loan provided by Servicer in SMP.

2. Scope of Responsibilities for Purchase and Sale

2.1 **Seller.** Upon selecting the Servicing as the purchaser of the Servicing Rights in SMP, Seller agrees that Seller shall sell its interest in the Servicing Rights of the Mortgage Loan to Servicer at the same time Fannie Mae purchases that Mortgage Loan. Within thirty (30) days of the first Purchase Date, Seller shall provide to Servicer a copy of Seller’s most recent audited and year-to-date unaudited financial statements. In addition, Seller shall provide to Servicer, on a semi-annual basis, updated audited and unaudited financial statements for as long as this Agreement is in effect. Seller warrants that it shall maintain fidelity bond and insurance for errors and omissions as required by Fannie Mae.

2.2 **Servicer**. Upon being selected as the purchase of the Servicing Rights in SMP, Servicer agrees that Servicer shall purchase Seller's interest in the Servicing Rights of the Mortgage Loan at the same time Fannie Mae purchases that Mortgage Loan. A Servicer for purposes of this Agreement may designate a third party to act on its behalf (such as a subservicer), and Seller shall perform its obligations under this Agreement with such designee as instructed or authorized by Servicer or by Fannie Mae.

2.3 **Fannie Mae**. Fannie Mae shall facilitate the transfer of Servicing Rights. In no event shall Fannie Mae have and/or be subject to any recourse, claim or liability which may be alleged, due or imposed in connection with any breach, claim or default of any kind under this Agreement, and any such recourse, claim or liability shall be the responsibility of, satisfied by and chargeable to Seller or Servicer, as applicable.

2.4 **Notification of Parties**. Fannie Mae shall notify Servicer and Seller of the transfer of Servicing Rights as follows:

(a) **Notice to Seller**. Seller shall be notified of the transfer of the Servicing Rights of the Mortgage Loan via SMP.

(b) **Notice to Servicer**. Servicer shall be notified of the transfer of the Servicing Rights of the Mortgage Loan via SMP.

2.5 **Sellers and Servicer Acknowledgement of Fannie Mae's Role**. Both Seller and Servicer hereby agree and acknowledge that:

(a) **Cooperation**. Fannie Mae through SMP will facilitate the purchase and sale of Seller's interest in the Servicing Rights.

(b) **Recourse**. In no event shall Fannie Mae have and/or be subject to any recourse, claim or liability which may be alleged, due or imposed in connection with any breach, claim or default of any kind under this Agreement, and any such recourse, claim or liability shall be the responsibility of, satisfied by and chargeable to Seller or Servicer, as applicable.

(c) **Release of Liability.** Except as otherwise provided in this Agreement or any other agreement between Fannie Mae and Seller or Servicer, respectively, Seller and Servicer each hereby release Fannie Mae from any liability, claim or expense relating to the performance of each other under the terms of this Agreement.

3. Responsibility and Liability for Selling Representations and Warranties

Seller and Servicer acknowledge and agree that Fannie Mae has the right to enforce the Selling Representations and Warranties against either or both of Seller and/or Servicer pursuant to, and to the extent provided by, the terms and conditions of the Seller's Purchase Documents and the Servicer's Servicing Documents, respectively.

4. Purchase Price

4.1 **Seller.** The purchase price paid to Seller for the Servicing Rights of the Mortgage Loan shall be the Net SRP calculated using the data set forth on the rate sheet for the Mortgage Loan provided by Servicer in SMP.

4.2 **Funding Adjustments.** The amount of all Funding Adjustments shall be reflected in the purchase proceeds paid by Servicer on the Purchase Date for the Servicing Rights of the Mortgage Loans.

5. Condition Precedent to Servicer's Obligations

Unless waived by Servicer in writing, Seller agrees to the following:

5.1 **Seller Obligations on Purchase Date.**

(a) **Notice to Insurance Company**. On the Purchase Date, Seller shall inform, by written notice, all interested insurance companies, all other interested parties, and/or their respective agents, of the transfer of Servicing Rights to Servicer. Such notice shall include Servicer's Mortgage Loan number and shall:

(i) **Title**. Name Servicer and its successors and assigns as an insured in the lender's policy of title insurance for the Mortgage Loan (unless the lender's policy of the title insurance for the Mortgage Loan defines "insured" as any owner of indebtedness secured by the insured mortgage);

(ii) **Fire and Extended Coverage**. Change the loss payee or mortgagee clause to include Servicer in the fire and extended coverage policy for the Mortgaged Premises;

(iii) **Flood and Catastrophe**. Change the loss payee or mortgagee clause to include Servicer in the flood insurance policy and in the catastrophe insurance policy, if any, for the Mortgaged Premises; and

(iv) **Private Mortgage**. Name Servicer and its successors and assigns as an insured and, if applicable, include a lender's loss payable endorsement in the private Mortgage Insurance certificate for the Mortgage Loan.

(b) **Notice to Mortgagor**. Seller shall provide the mortgagors with written notice of the transfer of servicing from Seller to Servicer, the form and content of which notice shall comply with the Real Estate Settlement Procedures Act ("**RESPA**"), RESPA's implementing Regulation X, and any other applicable laws and regulations. Seller shall provide the mortgagors with such written notice at the closing of the Mortgage Loan or such other time as may be required by RESPA and other applicable laws and regulations.

(c) **Recording and Delivery of Assignment**.

(i) If (A) Mortgage Electronic Registration Systems, Inc. ("**MERS**"®) is not the mortgagee of record at the time Seller transfers the Servicing Rights to Servicer, Seller shall execute and submit for recording at the applicable recording office an assignment of the relevant security instrument securing the Mortgage Loan in favor of Servicer, in the format provided by Servicer and as required by the Guides, or (B) MERS is the mortgagee of record at the time Seller transfers the Servicing Rights to Servicer, Seller shall cause the applicable Mortgage

Loan to be registered on MERS and identify Servicer as servicer, in the format provided by Servicer, and Fannie Mae as investor, and deliver all such recorded assignments to Servicer.

(ii) Seller shall deliver powers of attorney to Servicer sufficient to allow Servicer to execute all documentation requiring execution on behalf of Seller with respect to the servicing of the Mortgage Loan, including assignments, mortgages, title policies, satisfactions, partial releases, modifications and foreclosure documentation, or in the alternative when execution by Seller is required, Seller shall, as promptly as reasonably feasible, but in no event exceeding five (5) days after delivery, execute and return such documentation to Servicer.

(d) **Real Estate Tax Payment**. In the event the Mortgage Loan requires the mortgagor to escrow funds, Seller shall pay all real estate taxes that are due and payable (i) on or before the Purchase Date, and (ii) within thirty (30) days after the Purchase Date. Seller agrees to follow transfer procedures with respect to real estate tax service contracts in a manner described in the Servicing Transfer Instructions. In addition, Seller shall not pay any bill for which Seller has not specifically retained escrow funds pursuant to Section 6.2 herein. In the event the Mortgage Loan does not require the mortgagor to escrow funds, Seller shall cause the mortgagors to pay the above-described real estate taxes.

(e) **Insurance Payment**. In the event the Mortgage Loan requires the mortgagor to escrow funds, Seller shall pay the hazard insurance, flood insurance and private Mortgage Insurance premiums that are due and payable (i) on or before the Purchase Date, and (ii) within thirty (30) days after the Purchase Date. Seller shall not pay any bill for which Seller has not specifically retained escrow funds pursuant to Section 6.2 herein. In the event the Mortgage Loan does not require the mortgagor to escrow funds, Seller shall cause the mortgagors to pay the above-described hazard insurance, flood insurance and private Mortgage Insurance premiums.

(f) **Execute Other Documents**. Seller shall execute such further documents reasonably required by Servicer to fully transfer or assign all of Seller's rights, title, and interest in and to the subject Servicing Rights to Servicer and escrow funds transferred hereunder.

5.2 **Seller Obligations after Purchase Date**. Within three (3) Business Days after the Purchase Date, Seller at its own expense shall furnish Servicer or the designated document custodian, as applicable, with the following:

(a) **Mortgage Loan Information**. Seller shall provide all available computer or like records if and as reasonably requested by Servicer, from time to time, reflecting pertinent information on the Mortgage Loan, including but not limited to comprehensive tax and insurance information identifying payee, payee address, next payment due date, and policy number.

(b) **File**. A complete loan file as described in the Fannie Mae Selling Guide to Servicer unless otherwise directed by Fannie Mae. Seller must also retain a copy of the complete loan file and maintain that copy in accordance with the requirements of the Fannie Mae *Servicing Guide* and any other applicable requirements set forth therein.

(c) **Other Documents**. Seller shall deliver to Servicer any and all further documents reasonably required by Servicer in order to fully transfer to Servicer all of Seller's rights, title and interest in and to the Servicing Rights and escrow funds transferred hereunder.

(d) **Late Fee**. If Seller fails to comply with this Section, Servicer may, in its sole discretion, charge Seller a late fee of up to $500.00 per mortgage loan.

5.3 **Accurate Representations and Warranties.** Seller's representations and warranties hereunder are true and accurate as of and prior to the Purchase Date.

5.4 **Compliance with Requirements.** Seller shall comply with the Servicing Transfer Instructions, as amended from time to time; and Seller shall complete any and all required forms contained in and as required by the Servicing Transfer Instructions and return such information and items to the party designated therein to receive such information and items.

6. Exchange of Funds

6.1 **After Purchase Date.**

(a) **Reconciliation of Funding Adjustments**. Seller and Servicer shall have the sole responsibility to adjust and reconcile the amount of the Funding Adjustments. Seller and Servicer hereby agree to release Fannie Mae from any responsibility to adjust the Funding Adjustments, to communicate with Seller and Servicer regarding any adjustments to or reconciliations of the Funding Adjustments, or to pay any amounts owed or owing between Seller and Servicer regarding adjustments to or reconciliations of the Funding Adjustments. In the event either party informs the other of the need to adjust and reconcile the Funding Adjustments, the party that is so informed shall research the discrepancy and, upon verification by them, the parties shall take such actions as are necessary to rectify the discrepancy.

(b) **Late Fee**. If Seller fails to transfer any and all funds required pursuant to this Agreement within three (3) Business Days of demand from Servicer, then Servicer may, in its sole discretion, charge Seller a late fee of up to $500.00 per mortgage loan.

6.2 **After Receipt.** Within one (1) Business Day of receipt, Seller shall transfer and forward to Servicer via wire transfer or overnight delivery service all funds received from the mortgagor after the Purchase Date.

7. Payment of Costs

7.1 **Seller Costs.** Seller shall pay all its own costs for computer service fees, production of required material, transporting records and files, obtaining a real estate tax contract, assignment fees, legal and accounting fees, wire transfer fees and other costs incurred by Seller in its performance of its obligations under this Agreement related to the time period ending on or before the Purchase Date. Additionally, Seller shall pay the applicable Fannie Mae transfer fee(s), if any, for the Servicing Rights transferred to Servicer. Seller shall also be responsible for all designated document custodian-assessed custodial fees, including but not limited to fees for the certification, safekeeping and release of the promissory note.

7.2 **Servicer Costs**. Servicer shall pay all its own costs for computer service fees, legal and accounting fees, all designated document custodian-assessed custodial fees, including but not limited to fees for the certification, safekeeping and release of the promissory note, and other costs incurred by Servicer in its performance of its obligations under this Agreement after the Purchase Date.

7.3 **Late Fee**. Servicer shall be entitled to charge Seller a fee ("**Late Document Fee**") equal to $100.00 per Mortgage Loan per month if all final documents specified in the “Final Documents” section of the Servicing Transfer Instructions have not been delivered to Servicer or the designated document custodian within six (6) months of the Purchase Date. Such Late Document Fee shall begin to accrue on the first (1st) day of the seventh (7th) month after the Purchase Date. Notwithstanding the foregoing, Servicer shall not impose a Late Document Fee if Seller's failure to deliver an original loan document is caused by the failure of the applicable recording office to record and return the loan document, provided Seller, in Servicer's reasonable judgment, has exercised and continues to exercise reasonable good faith efforts to fulfill its obligation hereunder.

7.4 **Refund of the SRP and Repurchase of Mortgage Loan**.

(a) **Mortgage Loan Paid in Full**. If the Mortgage Loan is paid in full within 120 days of the Purchase Date, Seller shall refund one hundred percent (100%) of the price paid by Servicer for such Servicing Rights, plus any applicable associated interest loss and any applicable fees due to Fannie Mae.

(b) **Mortgage Loan Repurchases**.

(i) If Fannie Mae requires Seller to repurchase the Mortgage Loan, Servicer may, in its sole discretion, require Seller to repurchase the Servicing Rights. Seller shall then be required to refund the price paid by Servicer for the Servicing Rights in accordance with the schedule in *Exhibit A to this Agreement.*

(ii) Servicer may charge Seller a $200.00 repurchase fee in the event Seller is required to repurchase the Mortgage Loan. Seller shall remit payment of such repurchase fees directly to Servicer.

(iii) In the event that for any Mortgage Loan for which Servicer has purchased the Servicing Rights, the first, second or third monthly payment due Servicer becomes sixty (60) or more days delinquent (each such Mortgage Loan, an "**EPD Mortgage Loan**") after the applicable Purchase Date, Seller shall reimburse Servicer for the original purchase price paid for said EPD Mortgage Loan, along with an early payment default fee of $1,500 per EPD Mortgage Loan. Seller shall wire to Servicer the applicable amount within seven (7) Business Days from the date of Servicer's request.

(iv) To the extent provided in the Servicing Documents, if Servicer is required by Fannie Mae to repurchase a Mortgage Loan or to make Fannie Mae whole, for any issue determined by Fannie Mae to be a breach of Seller's representations and warranties made under the *Selling Guide*, Servicer shall promptly notify Seller and shall inform Seller of the related repurchase or make-whole request and the date of such repurchase or make-whole payment. Seller shall have the right to determine and direct whether to effect or contest such repurchase or make-whole request. Subject to applicable notice and cure provisions of this subsection and regardless of whether Seller has elected to contest such repurchase or make-whole request, Seller shall pay to Servicer, by wire transfer of immediately available funds, the sum of the applicable repurchase or make-whole payment and the related Servicing Rights Repurchase Amount on the day which is the earlier of (a) five (5) Business Days prior to such repurchase or make-whole payment date, or (b) ten (10) Business Days after Servicer's demand for payment of such amounts. Seller shall reimburse Servicer an amount equal to the amount paid by Servicer to Fannie Mae for such repurchase or make-whole, as well as pay the applicable Servicing Rights Repurchase Amount. In addition, Seller shall pay to Servicer all actual and reasonable out-of-pocket costs and expenses (including but not limited to overnight courier charges) borne by Servicer in connection with the attempted cure of the applicable breach and in connection with the repurchase or make-whole of such Mortgage Loan from Fannie Mae, including, but not limited to, reasonable attorney's fees. Upon the consummation of any such repurchase or make-whole as provided above, the applicable repurchased Mortgage Loan shall be delivered to Seller, provided Fannie Mae is not requesting a make-whole. With respect to each Mortgage Loan for which Servicer is notified by Fannie Mae that it will or may be required to repurchase or make-whole (1) Servicer will make reasonable efforts to mitigate losses with respect thereto; (2) Servicer will notify Seller of the applicable repurchase requirement no later than ten (10) Business Days after Servicer's receipt of notice thereof from Fannie Mae; (3) upon Seller's request Servicer shall furnish to Seller a copy of the related credit file and other information requested by Seller, including payment histories to enable Seller to respond to Fannie Mae; (4) Servicer will allow Seller to cure, within any cure period allowed by Fannie Mae, the condition or breach resulting in the repurchase or make-whole requirement, and (5) Servicer will cooperate with any request for extensions.

(v) If it is discovered after the Purchase Date with respect to a Mortgage Loan that a Private Mortgage Insurance Policy is not in force or has been canceled with respect to such Mortgage Loan as of the Purchase Date, and the failure of such a policy to be in force on or after the Purchase Date is due to negligence on the part of Seller, Seller shall, no later than thirty (30) days after Seller's receipt of notification thereof, either (a) take all such actions as are necessary to cause such policy to be in force or to be reinstated by the applicable insurer, or (b) repurchase the related Servicing Rights from Servicer at the Servicing Rights Repurchase Price. If Seller fails to comply with the preceding sentence with respect to a Mortgage Loan, Servicer shall notify Fannie Mae, to initiate the repurchase process with respect to such Mortgage Loan. At no time shall Servicer be made to advance funds to reinstate any Private Mortgage Insurance Policy or pass-through to Fannie Mae any losses due to reasons stated in this subsection. If Servicer is notified of a rescission of the Private Mortgage Insurance Policy, Seller shall reimburse Servicer for any amounts due within fifteen (15) Business Days of receipt of request for reimbursement from Servicer, provided such policy cannot be reinstated.

(vi) Notwithstanding the provisions of this Section 7.4, if Fannie Mae requires Seller to repurchase a Mortgage Loan that was sold to Fannie Mae in a bifurcated SMP transaction, the parties agree and acknowledge that such repurchase shall be handled in accordance with the procedures and requirements specified in the *Servicing Guide* with respect to repurchase obligations related to bifurcated mortgage loans.

7.5 **Post Purchase Date Data Corrections.** If after the Purchase Date the Seller or Servicer determines that Seller did not deliver the required data or the correct data for the Mortgage Loan, the Seller or Servicer must complete post-Purchase Date data corrections in accordance with the Seller/Servicer-Initiated Post-Purchase Adjustment process described on Fannie Mae's website, and the terms and provisions of the *Servicing Guide.*

8. Representations, Warranties, Covenants and Indemnification and other Responsibilities

8.1 **Transfer of Servicing Rights.**

(a) **Governing Rules**. Except as provided in the Fannie Mae Selling Guide, the Purchase Documents and the Servicing Documents, as and to the extent applicable, all Concurrent Transfers of Servicing shall be in accordance with the Fannie Mae *Selling Guide* and the Fannie Mae *Servicing Guide*.

(b) **Selling Representations and Warranties**. Seller shall be solely liable to Fannie Mae for all Selling Representations and Warranties with respect to the Mortgage Loans upon the transfer of servicing to the extent provided in the Purchase Documents.

(i) **Quality control activities**. Fannie Mae will conduct quality control activities relating to the sale representations and warranties with Seller. Seller agrees that Fannie Mae may share information with Servicer regarding the Mortgage Loan including, but not limited to, quality control findings, Seller's response to quality control findings, and defect reports.

(ii) **Consent to Workout/REO Disposition**. Seller acknowledges that in the event the Mortgage Loan becomes delinquent or is foreclosed, Fannie Mae or Servicer may enter into a workout of the Mortgage Loan or dispose of the Mortgaged Premises. Seller consents in advance to any such workout option or disposition of the Mortgaged Premises that Fannie Mae and/or Servicer enters into for the Mortgage Loan, and acknowledges that Fannie Mae retains the right to exercise its remedies for Seller's breach of the Selling Representations and Warranties.

(c) Servicer's Representations, Warranties and Covenants. As of the Purchase Date, Servicer agrees, for the benefit of Fannie Mae, to the following:

(i) Servicer accepts the Servicing Rights and agrees to service the Mortgage Loans in accordance with all Fannie Mae requirements;

(ii) Servicer assumes responsibility for all of the Seller’s contractual obligations related to the Mortgage Loans, excluding the Selling Representations and Warranties, that arise in connection with the Mortgage Loans or the servicing of them prior to the delivery of the Mortgage Loans to Fannie Mae;

(iii) Servicer has performed due diligence review(s) of the Servicing Rights to its satisfaction, which includes examination of the books, records, and custodial accounts of the Seller with respect to the Servicing Rights;

(iv) Servicer assumes full responsibility to Fannie Mae for the correctness of such books and records; and

(v) Servicer represents and warrants that the provisions of any agreement between Servicer and any other party providing for servicing the Mortgage Loans will not continue after the Purchase Date.

8.2 **Indemnification of Servicer**.

(a) **Seller Action**. Seller shall indemnify Servicer for, and shall hold Servicer harmless from and against any and all losses, liabilities, penalties, damages, expenses or other harm or injury that Servicer may incur or suffer or claims or causes of action which may be asserted by any person or entity, including reasonable attorneys' fees and court costs, arising from any failure to observe and perform properly each and every covenant of this Agreement either by (a) Seller or (b) Servicer in reliance upon information provided to Servicer by Seller; provided, however, that there is no negligence by Servicer.

(b) **Third Party Claims**. Without limiting the above, Seller shall indemnify Servicer and Fannie Mae for and shall hold Servicer and Fannie Mae harmless from and against any and all losses, liabilities, penalties, damages, expenses or other harm or injury that Servicer or Fannie Mae may incur or suffer or any claims or causes of action that may be asserted by any person or entity, including reasonable attorney's fees and court costs, resulting from third party claims arising out of or relating to the Mortgage Loan or the Servicing Rights and:

(i) **Misrepresentation**. Any misrepresentation made by Seller in relation to the subject matter of this Agreement.

(ii) **Breach**. Any breach by Seller, any prior originator or any prior servicer of any of Seller's representations or warranties under this Agreement.

(iii) **Seller Act**. Any act or failure to act or perform any term, covenant, condition or obligation of Seller under this Agreement.

(iv) **Prior Act**. Any act or failure to act by any prior originator of the Mortgage Loan or any act or failure to act by any prior servicer of the Mortgage Loan.

(v) **Defect**. Any defect in the Mortgage Loan existing as of the Purchase Date.

(vi) **Error**. Any errors in originating, closing or servicing the Mortgage Loan existing as of the Purchase Date, including any improper act or failure to act when required to do so.

(c) **Servicer Remedies**. Notwithstanding the provisions set forth above, Servicer shall use commercially reasonable efforts to pursue all remedies under any title insurance policy, hazard insurance policy, flood insurance policy, PMI policy, government guarantee, tax service contract, or any other means available in the Mortgage Loan documents or under this Agreement. Servicer, however, shall not be required to sue any such third parties.

8.3 **Indemnification of Seller.** Servicer shall indemnify Seller and Fannie Mae and shall hold Seller and Fannie Mae harmless from and against any and all losses, liabilities, penalties, damages, expenses or other harm or injury that Seller or Fannie Mae may incur or suffer or claims or causes of action which may be asserted by any person or entity, including reasonable attorney's fees and court costs, arising from any failure to observe and perform properly each and every covenant of this Agreement either by (a) Servicer or (b) Seller in reliance upon information provided to Seller by Servicer; provided, however, that there is no negligence by Seller.

8.4 **Notice of Claim/Subrogation.** The party seeking indemnification under this Agreement shall notify the other party, in writing, within 30 days of receipt of notice of any claim, the commencement of any action or of the party which is seeking indemnification becoming aware of any facts that would give rise to, or serve as a basis for, a claim or action for which such party is entitled to receive indemnification under this Agreement. It is understood that Servicer shall take action in accordance with servicing standards generally applicable in the industry in dealing with such matters, and failure to promptly notify Seller shall not affect Servicer's right of indemnification unless such failure is prejudicial to Seller. If any such action is brought against Servicer and Servicer notifies Seller as set forth above, Seller shall be entitled to participate in and, provided Seller provides written notice to Servicer of its interest to do so and no conflict of interest exists in doing so, to assume the defense with counsel reasonably satisfactory to Servicer. However, Seller shall promptly deliver written notice to Servicer of its intent to assume the defense of such action. Upon receipt by Servicer of the notice from Seller of its election to assume the defense of such action, Seller shall not be liable to Servicer under this Agreement for any legal or other expenses subsequently incurred by Servicer in connection with the defense thereof. Additionally, Seller shall not be entitled to settle, compromise, decline to appeal or otherwise dispose of any such action without the consent of Servicer, which consent shall not be unreasonably withheld or delayed, but which consent may be withheld by Servicer if the settlement or compromise will have a material impact on Servicer's methods of servicing or ability to service the Mortgage Loan or any other mortgage loans serviced for other investors.

9. Seller's Representation and Warranties

9.1 **As to Each Mortgage Loan.** Seller represents and warrants as to each Mortgage Loan:

(a) **Fannie Mae Requirements**. The Mortgage Loan meets all requirements of the applicable Purchase Documents, as amended and in effect at the time the Mortgage Loan was sold.

(b) **No Fraud**. There was no fraud or misrepresentation in the origination of the Mortgage Loan, whether or not as a result of any act or omission of Seller, a prior originator, the mortgagor, or any employee, representative or agent of the foregoing as would materially impair the Mortgage Loan or the related Mortgage Insurance contract.

(c) **Delinquency**. The Mortgage Loan shall not have been delinquent (more than 30 days past due) within one year of the Purchase Date.

(d) **Other**. Seller has not committed any act or failed to commit an act in connection with the Mortgage Loan which would cause Fannie Mae to request a repurchase of the Mortgage Loan.

9.2 **As to Servicing Rights**. Seller represents, warrants and covenants that:

(a) **Title to Servicing Rights**. Seller has good and marketable title to the Servicing Rights and has the complete right and power to transfer the Servicing Rights to Servicer, subject to approval by Fannie Mae, free and clear of all adverse claims and encumbrances.

(b) **No Adverse Claims**. The transfer of Servicing Rights by Seller to Servicer is free and clear of all adverse claims and encumbrances, and there has been no assignment, sale or hypothecation thereof.

(c) **Validity of Transfer**. If the Mortgage Loan was not originated by Seller or Seller's subsidiary, it shall nonetheless be transferred to Servicer by Seller pursuant to appropriate endorsement and assignment of the Mortgage Loan and shall be subject to the representations, warranties and covenants of Seller as provided in this Agreement with the same force and effect as if the Mortgage Loan was originated by Seller or Seller's subsidiary.

(d) **Requirement Adherence**. The Mortgage Loan was serviced in accordance with applicable federal, state and local laws, rules and regulations and with all applicable requirements of Fannie Mae with respect thereto.

(e) **Prior Servicing**. There are no defenses, counterclaims, or rights of setoff arising from the prior servicing affecting the Mortgage Loan or affecting the validity or enforceability of any Mortgage Insurance applicable to the Mortgage Loan. The provisions of any agreement between Seller and any other party providing for servicing of the Mortgage Loan existing as of the Purchase Date will not continue after the Purchase Date.

(f) **Filing of Reports**. Seller has filed or will have filed all reports required by governmental agencies having jurisdiction over the Servicing Rights being transferred by Seller to Servicer.

(g) **Pending Litigation**. There is no pending, or to the best of Seller's knowledge, threatened, Litigation, or basis therefore, with respect to a Mortgage Loan which would have a material adverse effect on the servicing of the Mortgage Loan.

9.3 **Servicer Representations and Warranties.** Servicer represents, warrants and covenants that it will service the Mortgage Loan in accordance with the Servicing Documents.

10. Non-Solicitation by Seller

Seller covenants and agrees that it shall not solicit any borrower of a Mortgage Loan for a refinance after the Purchase Date. Notwithstanding the foregoing, the parties understand and agree that promotions undertaken by Seller or any affiliate of Seller which are directed to the general public at large or any portion thereof, including, without limitation, any mass mailing, newspaper, radio, internet or television advertisements, shall not constitute solicitation under this Section.

11. Mutual Further Assurances

Seller and Servicer agree and covenant that each will at any time and from time to time, upon the reasonable request of the other party, execute, acknowledge, deliver or perform all such further acts, deeds, assignments, transfers, conveyances and assurances as may be required for the better vesting and confirming unto the other party and its successors and assigns the title to and possession of the Servicing Rights or as shall be necessary to effect the transactions provided for in this Agreement.

12. Governmental Authorities and Laws

In the event any provision of the Agreement is inconsistent with or in violation of any federal statute or rule or regulation of applicable governmental agencies, it is agreed by the parties thereto that such provision shall be of no force or effect and that the Agreement shall continue as though said contrary provision was deleted from this Agreement.

13. Notices

Any notice, demand, or communication which either party desires or is required to give the other party in connection with this Agreement shall be in writing and shall be either served personally, sent by prepaid registered or certified mail, delivered by a nationally recognized overnight courier service, or sent via electronic mail with transmittal confirmed in writing, addressed to the parties as set forth in the Servicing Transfer Instructions.

14. Termination Provision

14.1 **Termination for Cause.** Servicer may elect to not complete the sale and transfer of the Servicing Rights at any time prior to the purchase of the Mortgage Loan by Fannie Mae, if Servicer provides Seller and Fannie Mae with written notice that Servicer is terminating the Agreement with respect to Seller for any of the following for events:

(a) **Seller Bankruptcy Protection**. Seller files for protection under any bankruptcy or similar law.

(b) **Seller Termination**. Any termination of Seller's approvals from Fannie Mae, any government entity, or any other regulatory entity.

14.2 **Termination without Cause**. Either Seller or Servicer may terminate this Agreement without cause or penalty by utilizing the relationship management features in the whole loan committing application or in SMP. Seller shall sell and transfer and Servicer shall purchase and accept the Servicing Rights for the Mortgage Loan, and the parties shall fulfill all obligations hereunder pertaining to the Mortgage Loan, if the Mortgage Loan was committed for sale to Fannie Mae before the effective date of such deactivation.

14.3 **Effect of Termination on Prior Breaches.** Upon termination of this Agreement, each party shall remain liable for breaches of the Agreement that occurred prior to such termination. Termination of this Agreement shall not release a breaching party from its obligation to indemnify the non-breaching party and the non-breaching party shall be entitled to receive reimbursement and payment for all sums that it would have been entitled to receive under this Agreement prior to termination.

15. Entire Agreement

Except as set forth herein, this Agreement, together with the attachments and schedules, constitutes the entire Agreement between the parties pertaining to the subject matter hereof and supersedes any and all prior agreements, representations, and understanding of the parties, written or oral. In the event of a conflict between this Agreement, the attachments or schedules hereto, the Fannie Mae Guides and the Servicing Transfer Instructions, the order of precedence shall be: (i) the Guides, (ii) this Agreement, (iii) the attachments or schedules hereto, and (iv) the Servicing Transfer Instructions. No addendum, supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. Notwithstanding the foregoing, this Agreement shall not affect or supersede any terms of other agreements between Seller and Fannie Mae, including but not limited to the Purchase Documents, or between Servicer and

Fannie Mae, including but not limited to the Servicing Documents.

16. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State in which Servicer's principal place of business is located.

17. Disputes

17.1 Jurisdiction. In the event of any suit, action, or other proceeding arising directly or indirectly out of such dispute (hereinafter in this Section collectively "**such proceeding**"), the parties agree that such proceeding shall be instituted in the federal and/or state courts located in the state in which Servicer's principal place of business is located and that such courts shall have sole and exclusive in personam, subject matter, and other jurisdiction in connection with such proceeding. For all purposes of venue, such proceeding shall occur in and be determined solely and exclusively by such courts; and any final judgment rendered by such counts shall be deemed final and conclusive for all purposes among the parties, subject to appellate review.

17.2 **Survival of Provisions**. Notwithstanding any provision to the contrary in this Agreement, all representations, warranties and covenants, as well as the agreements, commitments, promises, and obligations of Servicer and Seller under this Agreement that are intended by their terms to survive the termination of this Agreement shall survive for the life of the Mortgage Loan.

17.3 **Waiver**. Notwithstanding any provision to the contrary in this Agreement, any waiver regarding this Agreement by a party may be made only by a writing signed by the party to be bound thereby specifying that such writing is such a waiver.

17.4 **Party Consent.** Notwithstanding any provision to the contrary in this Agreement, no consent, permission, authorization, or approval required of or by Servicer under this Agreement shall be unreasonably withheld, conditioned or delayed.

Exhibit A to Mortgage Loan Servicing Purchase and Sale Agreement

EXHIBIT A TO MORTGAGE LOAN SERVICING PURCHASE AND SALE AGREEMENT REPURCHASE SERVICING RELEASED PREMIUM SCHEDULE	
Time from Date of Purchase of Servicing Rights	**Percent**
Up to 12 months	100%
13 to 24 months	75%
25 to 36 months	50%

EXHIBIT A TO MORTGAGE LOAN SERVICING PURCHASE AND SALE AGREEMENT REPURCHASE SERVICING RELEASED PREMIUM SCHEDULE	
37 to 60 months	25%
Greater than 60 months	0%

E-2-06, Future Updates to Maintaining Seller/Servicer Eligibility (03/01/2023)

Introduction

This Exhibit contains the requirements for maintaining seller/servicer eligibility that sellers/servicers must comply with by September 30, 2023, unless otherwise stated, including:

- Definitions
- Minimum Requirements
- Seller Eligibility Criteria for Servicing Marketplace

Definitions

The following table provides the definition of terms related to maintaining sellers/servicer eligibility as described in this Exhibit.

Term	Definition
Adjusted net worth	Adjusted Net Worth is defined as: • total equity capital as determined by Generally Accepted Accounting Principles (GAAP); minus • goodwill and other intangible assets (excluding mortgage servicing rights); minus • affiliated receivables; minus • pledged assets net of associated liabilities; minus • deferred tax assets net of associated deferred tax liabilities. **Note**: If the deferred tax liabilities are greater than the deferred tax assets, then the deduction from the Adjusted Net Worth will be zero.

Allowable liquidity	Allowable liquidity includes:
	• unrestricted cash and cash equivalents;
	• unpledged, available-for-sale or held-for-trading investment grade securities limited to the following:
	  ◦ Fannie Mae, Freddie Mac, and Ginnie Mae MBS:
	  ◦ obligations of GSEs;
	  ◦ U.S. Treasury obligations; and
	• 50% of the unused portion of committed servicing advance lines of credit of one- to four-unit residential first lien mortgage loans serviced for Fannie Mae, Freddie Mac, and Ginnie Mae.

Large non-depository sellers/servicers	An entity servicing $50 billion or more in residential first lien mortgage servicing UPB plus other servicing UPB as determined at the end of each calendar quarter.
Long-term corporate family rating	A long-term rating that reflects the relative likelihood of a default on a corporate family's debt and debt-like obligations and the expected financial loss suffered in the event of default from a rating agency.
Long-term senior unsecured debt rating	A rating assigned to a financial obligation with an original maturity of one year or more that reflects the likelihood of a default on contractually promised payments on senior unsecured debts and the expected financial loss suffered in the event of default on such dents from a rating agency.
Other servicing UPB	The outstanding UPB of a seller/servicer's portfolio of one- to four-unit residential first lien mortgage loans the seller/servicer is contractually obligated to service for all investors other than Fannie Mae, Freddie Mac, and Ginnie Mae, plus the following regardless of the investor: • second lien mortgage loans; • funded home equity lines of credit; • reverse mortgage loans; and • construction and land development mortgage loans The outstanding UPB of mortgage loans serviced by a seller/servicer under a subservicing arrangement is excluded.
Rating agency	An entity that is a "Nationally Recognized Statistical Rating Organization" as defined by Section 78c(a) of Title 15 of the United States Code (15 U.S.C. 78c(a)).
Residential first lien mortgage servicing UPB	The outstanding UPB of a seller/servicer's portfolio of one- to four-unit residential first lien mortgage loans the seller/servicer is contractually obligated to service for Fannie Mae, Freddie Mae, or Ginnie Mae, as applicable, excluding: • funded home equity lines of credit. • reverse mortgage loans, and • construction and land developments mortgage loans. The outstanding UPB of mortgage loans serviced by a seller/servicer under a subservicing arrangement is excluded.

Servicer rating	An evaluation of a seller/servicer for its capacity to carry out servicing business, which is different from evaluations of financial instruments or credit standing of corporations, from a rating agency. Servicer ratings may be conducted based upon the type of servicing actions performed, including evaluations for entities that act as primary servicers, special servicers or master servicers.

Minimum Requirements

Sellers/servicers must comply with the minimum requirements described in the following table.

Category	**Description**
Minimum Net Worth (applicable to depository and non-depository sellers/servicers	All depository and non-depository sellers/servicers must maintain at all times an Adjusted Net Worth of at least $2.5 million, plus an amount equal to or greater than the sum of the following: • 0.25% of the portion of the seller/servicer's Residential First Lien Mortgage Servicing UPB serviced for Fannie Mae and Freddie Mac, plus • 0.35% of the portion of the seller/servicer's Residential First Lien Mortgage Servicing UPB serviced for Ginnie Mae, plus • 0.25% of the Other Servicing UPB. See *Seller Eligibility Criteria for Servicing Marketplace* in A3-3-02, Concurrent Servicing Transfers for additional requirements for SMP lenders. For entities such as nonprofit corporations who financial reporting requirements or standards do not facilitate calculation of Adjusted Net Worth, Fannie Mae will use equivalent financial data to determine compliance with the minimum net worth requirements.
Minimum Capital Requirements (applicable to depository sellers/servicers)	Sellers/servicers that are depository institutions are required to meet at all times the minimum regulatory capital requirements of their primary regulator.
Minimum Capital (applicable to non-depository sellers/servicers)	Non-depository sellers/servicers must maintain at all times a minimum Adjusted Net Worth/total assets ratio of 6%, or equivalent, as determined by Fannie Mae.

Minimum Liquidity (applicable to non-depository sellers/servicers)	Non-depository sellers/servicers must maintain at all times an Allowable Liquidity at a level equal to or greater than the sum of the following: • 0.07% of the portion of the seller/servicer's Residential First Lien Mortgage Servicing UPB serviced for Fannie Mae and Freddie Mac with scheduled/scheduled or scheduled/actual remittance types, plus • 0.035% of the portion of the seller/servicer's Residential First Lien Mortgage Servicing UPB serviced for Fannie Mae and Freddie Mac with actual/actual remittance types, plus; • 0.10% of the portion of the seller/servicer's Residential First Lien Mortgage Servicing UPB serviced for Ginnie Mae, plus • 0.035% of the Other Servicing UPB.
Origination Liquidity (applicable to certain non-depository sellers/servicers)	Effective December 31, 2023, non-depository sellers/servicers who originate greater than $1 billion in one- to four-unit residential first lien mortgage loans (excluding reverse mortgages, one- to four-unit residential construction-to-permanent loans to home buyers, and lot loans to consumers) in the most recent four-quarter period must maintain an origination liquidity of 0.5% of the sum of the following: • one- to four-unit residential first lien mortgage loans (excluding reverse mortgages, one- to-four-unit residential construction-to-permanent loans to home buyers, and lot loans to consumers) held for sale, at lower of cost or market; plus • one- to four-unit residential first lien mortgage loans (excluding reverse mortgages, one- to-four-unit residential construction-to-permanent loans to home buyers, and lot loans to consumers) held for sale, at fair value; plus • UPB of interest rate lock commitments after fallout adjustments.

Additional Requirements for Large Non-depository Sellers/Servicers

In addition to the minimum requirements for non-depository sellers/servicers above, Large Non-depository sellers/servicers must comply with the requirements described in the following table.

Category	Description
Supplemental Liquidity	In addition to the minimum liquidity requirements for non-depository seller/servicers above, Large Non-depository sellers/servicers must maintain supplemental Allowable Liquidity at all times at a level equal to or greater than the sum of the following: • 0.02% of the portion of the seller/servicer's Residential First Lien Mortgage Servicing UPB serviced for Fannie Mae and Freddie Mac, and • 0.05% of the portion of the seller/servicer's Residential First Lien Mortgage Servicing UPB serviced for Ginnie Mae.

Capital and Liquidity Plan	Effective March 31, 2024, and annually by March 31st each year thereafter, Large Non-depository sellers/servicers must submit a plan to Fannie Mae that describes how the seller/servicer intends to manage its capital and liquidity in a manner consistent with Fannie Mae requirements. The capital and liquidity plan must include the following at a minimum: • a description of the seller/servicer's corporate governance over the capital and liquidity planning process, such as oversight responsibilities of senior management and its board of directors, and a discussion of the seller/servicer's risk management framework; • a description of the processes to monitor and measure liquidity risks, such as business activity reports and financial forecast and cashflow projections; • capital and liquidity contingency funding plans, including providing for testing and reaffirmation of such plans at least annually; • an annual liquidity stress test, including a stress test of the value of mortgage servicing rights in an adverse scenario as developed by the seller/servicer, or as prescribed by Fannie Mae, or both; and • a requirement to provide written notice to Fannie Mae ∘ within five business days following any material change to or material deviation from the plan; and ∘ within one business day of any material changes during times of stress. **Note**: The seller/servicer is authorized to run the stress test either in-house or using a third-party vendor. To submit the capital and liquidity plans to Fannie Mae, sellers/servicers must contact their Fannie Mae customer account team for further instructions.
Third-party Servicer Rating	Effective December 31, 2023, Large Non-depository seller/servicer's must maintain a Rating Agency rating as follows: • Sellers/servicers servicing equal to or greater than $50 billion in Residential First Lien Mortgage Servicing UPB plus Other Servicing UPB must have one primary Servicer Rating or master Servicer Rating, as applicable; • Sellers/servicers servicing greater than $100 billion in Residential First Lien Mortgage Servicing UPB plus Other Servicing UPB must have: ∘ one primary Servicer Rating or master Servicer Rating, as applicable; and ∘ one Long-term Senior Unsecured Debt Rating or Long-term Corporate Family Rating. • Sellers/servicers servicing greater than $150 billion in Residential First Lien Mortgage Servicing UPB plus Other Servicing UPB must have: ∘ one primary Servicer Rating or master Servicing Rating, as applicable; and ∘ issued by two Rating Agencies, a Long-term Senior Unsecured Debt Rating or a Long-term Corporate Family Rating.

Seller Eligibility Criteria for Servicing Marketplace

In order to be eligible as a seller for Servicing Marketplace, at a minimum, sellers must meet and maintain an Adjusted Net Worth calculated in accordance with Minimum Requirements above, of at least $2.5 million plus an amount equal to the greater of:

- the sum of the following:
  - 0.25% of the Residential First Lien Mortgage Servicing UPB serviced for Fannie Mae and Freddie Mac, plus
  - 0.35% of the Residential First Lien Mortgage Servicing UPB serviced for Ginnie Mae, plus
  - 0.25% of the Other Servicing UPB, or
- 0.25% of the UPB of whole loans purchased by Fannie Mae that were committed in the preceding 36 months via Servicing Marketplace.

The minimum Adjusted Net Worth does not include mortgage loans serviced under a subservicing arrangement that is, for which the seller/servicer is contractually obligated to service for another servicer.

If these minimum requirements are met, Fannie Mae may, but is not required to, approve and activate the seller for Servicing Marketplace. A seller may view whether it has seller access to Servicing Marketplace by logging into the Fannie Mae whole loan committing application. Fannie Mae, in its discretion at any time, may terminate a seller's participation in Servicing Marketplace, which will be effective immediately.

Chapter E-3, Acronyms and Glossary of Defined Terms

Introduction

This chapter provides a list of terms used throughout this Guide with associated definitions.

E-3-01, Acronyms and Glossary of Defined Terms: A (03/01/2023)

accrual rate

The rate at which interest is calculated. For a particular remittance date for an MBS pool, it is the mortgage interest rate due under the terms of the mortgage note during the period beginning on the second day of the month preceding the remittance date and ending on the first day of the month in which such remittance date occurs, less the lender’s servicing spread.

ACH

Automated Clearing House

actual/actual remittance type

A remittance type that requires the lender to remit to Fannie Mae only the actual interest due (if it is collected from borrowers) and the actual principal payments collected from borrowers.

adjustable-rate mortgage (ARM)

A mortgage loan that permits the lender to periodically adjust the interest rate on the basis of changes in a specified index.

ADU

accessory dwelling unit

affiliated projects

Condo, co-op, and PUD projects that are under the same master association or share the use of common facilities that are either owned individually or as part of a master association or development are considered affiliated projects. Condo, co-op, or PUD projects that do not meet this criteria, are not considered affiliated projects, even if they are managed by the same management company.

allonge

An attachment to a legal document that is used to insert language or signatures when there is no space for them on the document itself. Frequently used to add endorsements to the mortgage note.

ALTA

American Land Title Association

amenities

Features that enhance the project but are not essential to the project’s use. Examples include, but are not limited to, swimming pools, fitness centers, tennis courts, playgrounds, gardens, or beach access.

American Land Title Association (ALTA)

A national association of title insurance companies, abstractors, and title agents. The association speaks for the abstract and title insurance industry and establishes standard procedures and title policy forms.

AMI

area median incomes

amortization

Gradual reduction of the mortgage debt through periodic payments scheduled over the mortgage term.

amortization schedule

A timetable for payment of a mortgage that shows the amount of each payment that should be applied to interest and principal and the remaining unpaid principal balance after each payment is applied.

appeal

A responsible party may dispute in writing a demand issued by Fannie Mae. The “appeal process” includes both the first and second appeals available to the responsible party.

application date

The date on which receipt of the borrower's financial information first triggers the federal Truth in Lending disclosure requirements to the borrower in connection with the mortgage loan.

appraisal

A report that sets forth an opinion or estimate of value.

appraisal waiver

See *value acceptance*.

ARM

adjustable-rate mortgage

ARM Flex

ARM MBS pools that provide interest accruals at a weighted-average pool accrual rate (which is developed by using either a fixed MBS margin or a weighted-average MBS margin). Because the application of the interest rate caps for the mortgage and the pool will coincide, the pass-through rate for a mortgage will not increase on any change date in which the interest rate cap limits the interest rate that is charged to the borrower.

ARM Flex Plus

ARM MBS pools that provide interest accruals at a weighted-average pool accrual rate (which is developed by using a fixed MBS margin) and allow interest rate caps to be applied independently to the individual mortgages in the pool and to the pass-through rate for the pool. This means that the pass-through rate for a mortgage may continue to increase even when no further increases can be made to the borrower's interest rate.

As Soon As Pooled (ASAP) Plus settlement

A settlement option in which a lender can deliver individual mortgages to Fannie Mae as much as 60 days before they are redelivered for whole loan purchase or allocated to a specific MBS pool.

As Soon As Pooled (ASAP) Sale settlement

An MBS settlement option in which a lender delivers pools of mortgages to Fannie Mae and receives a cash payment for them, with the securities from the delivered pools being used to satisfy a trade with either Fannie Mae or a third party.

ASAP Plus

As Soon As Pooled Plus

ASAP Sale

As Soon As Pooled Sale

assignment of rents

A written agreement wherein the owner of a property gives another party, such as the mortgagee or creditor, the right to collect rents, manage the property, pay expenses, and apply the net income toward delinquent mortgage payments.

assumption

A transaction in which the purchaser of real property takes over the seller's existing mortgage; the seller remains liable for the mortgage unless released by the lender from this obligation. The terms describing whether or not the loan is assumable are typically set forth in the security instrument.

ATR

ability to repay

Automated Clearing House (ACH)

An electronic drafting system that debits (or credits) an authorized bank account and electronically transfers funds to (or from) another designated account.

automated valuation model (AVM)

AVMs are statistically based computer programs that use real estate information, such as comparable sales, property characteristics, tax assessments, and price trends, to provide an estimate of value for a specific property.

AVM

automated valuation model

E-3-02, Acronyms and Glossary of Defined Terms: B (12/14/2022)

balances-to-limits ratio

The relationship between the outstanding balance(s) on an individual's revolving debt(s) to the total credit limit allowed for the revolving debt(s).

balloon mortgage

A mortgage that has level monthly payments that would fully amortize it over a stated term, but which provides for a lump-sum payment to be due at the end of an earlier specified term.

balloon payment

The outstanding balance due on a balloon mortgage that must be paid in a lump sum at the end of the mortgage term.

bankruptcy

A legal proceeding in federal court in which a debtor seeks to restructure their obligations to creditors pursuant to the Bankruptcy Code. This generally affects the borrower's personal liability for a mortgage debt, but not the lien securing the mortgage.

basis points (bps)

One one-hundredth of one percent. For example, 7½ basis points equal 0.075 percent or 0.00075.

blanket mortgage

A mortgage that is secured by a co-op project, as opposed to the share loans on individual units within the project.

book-entry delivery

An electronic system that allows for the issuance, maintenance, and transfer of mortgage-backed securities on the records of the U.S. Federal Reserve Banks. The system may be accessed through financial institutions that have book-entry accounts at one of the Federal Reserve Banks. Book-entry for Fannie Mae's securities is available through all of the Federal Reserve Banks.

book-entry delivery date

The actual date that Fannie Mae issues mortgage-backed securities to the designated book-entry account for a financial institution that has such an account with one of the Federal Reserve Banks. The book-entry delivery date and the settlement date for the securities may be the same day.

borrower

The person to whom credit is extended. On a mortgage loan, the person who has an ownership interest in the security property, signs the security instrument, and signs the mortgage/deed of trust note (if their credit is used for qualifying purposes). See also *co-borrower*.

BPO

broker price opinion

bps

basis points

bridge (or swing) loan

A short-term loan secured by the borrower's principal residence (which is usually for sale) that allows the proceeds to be used for closing on a new house before the present home is sold.

broker origination

A mortgage loan that is originated under circumstances where a person or firm other than a mortgage loan seller or lender correspondent is acting as a "broker" and receives a commission for bringing together a borrower and a lender. The broker performs some of the loan processing functions (such as taking loan applications; ordering credit reports, appraisals, and title reports; and verifying a borrower's income and employment), but does not underwrite the loan, fund the loan at settlement, or service the loan. Typically, the mortgage loan is closed in the name of the mortgage loan seller or lender correspondent that commissioned the broker's services, but may also include so-called "table-funded" mortgage loans where the loan is closed in the broker's name, but is funded by the mortgage loan seller or the lender correspondent.

broker price opinion (BPO)

A written estimate of the probable sales price of a property performed by a real estate agent or sales person with or without an interior property inspection. Commonly used for quality control and loss mitigation.

business day

A day other than (1) a Saturday or Sunday, (2) a day on which the Federal Reserve Bank of New York (or other agent acting as Fannie Mae's fiscal agent) is authorized or obligated by law or executive order to remain closed, or (3) a day on which the main offices of Fannie Mae in the District of Columbia are scheduled to be closed. In this Guide, the word "day" without the modifier "business" refers to a calendar day.

buydown account

An account in which funds are held so that they can be applied as part of the mortgage payment as each payment comes due during the period that an interest rate buydown plan is in effect.

E-3-03, Acronyms and Glossary of Defined Terms: C (12/14/2022)

capitalization

The addition of certain amounts due under the mortgage—such as tax and insurance payments made by the servicer or delinquent interest installments—to the unpaid principal balance of the mortgage, either because the borrower was unable to pay them or the servicer paid them on the borrower's behalf.

cash back pair-off

A process under which Fannie Mae provides a lender cash back if the lender is unable to meet the terms of a mandatory whole loan delivery commitment and, because of market fluctuations, the applicable whole loan price at commitment is greater than the price at the time of pair-off.

cash-out refinance

A refinancing transaction in which the amount of money received from the new loan exceeds the total of the money needed to repay the existing first mortgage, closing costs, points, and the amount required to satisfy any outstanding subordinate mortgage liens.

closing costs

Money paid by the borrower to effect the closing of a mortgage loan. This generally includes an origination fee, title exam, title insurance, survey, attorney’s fees, prepaid items such as taxes and insurance escrow payments, and any discount points paid.

CLTV

combined loan-to-value

co-borrower

For Fannie Mae’s purposes, this term is used to describe any borrower other than the first borrower whose name appears on the mortgage note, even when that person owns the property jointly with the first borrower (and is jointly and severally liable for the note).

co-op

unit in a cooperative project

coinsurance

A property insurance provision that penalizes the insured's loss recovery if the limit of insurance purchased by the insured is less than a specified percentage (typically 80, 90 or 100 percent) of the replacement cost value of the insured property.

combined loan-to-value (CLTV) ratio

A ratio that is used for a mortgage loan that is subject to subordinate financing, which is calculated by dividing the sum of (1) the original loan amount of the first mortgage, (2) the drawn portion (outstanding principal balance) of any HELOC from which the borrower has withdrawn funds, and (3) the unpaid principal balance of all other subordinate financing, by the lower of the property’s sales price or appraised value.

commercial space

Space in a condo, co-op, or PUD project or in buildings in which a condo, co-op, or PUD project is located that is used for non-residential purposes. Examples include, but are not limited to, office space, retail shops, or apartment rentals.

common area assessments

Mandatory periodic or regularly charged fees or dues (also referred to as common charges or common expense assessments) assessed against individual unit owners in a condo or PUD project for additional capital to defray the homeowners’ association’s costs and expenses and to repair, replace, maintain, improve, or operate the common areas of the project.

common elements (areas)

Those portions of a building, land, or amenities owned or managed by the homeowners’ association of a condo or PUD project (or by a co-op project’s co-op corporation) that are used by all of the unit owners, who share in the common expenses of their operation and maintenance. Common areas are defined in the project documents and may include, but are not limited to, swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, and means of ingress and egress. (Also see *amenities* and *common area assessments*.)

community facilities districts

Localities that have been empowered by state law to levy special taxes on their residents to fund the capital costs of a wide variety of public improvements (such as roads and sewer services), as well as the ongoing operation and maintenance costs of a limited number of public services (such as schools, police and fire protection services, libraries, etc.) that benefit the community.

Community Seconds

A subsidized second mortgage typically made by a federal, state, or local government agency, a nonprofit organization, a regional Federal Home Loan Bank under one of its affordable housing programs, a federally recognized Native American tribe and its sovereign instrumentalities, or an employer.

compensatory fee

A fee Fannie Mae charges to compensate for damages that maybe incurred as the result of a lender's failure to comply with a specific policy or procedure or to emphasize the importance Fannie Mae places on a particular aspect of the lender's performance.

condemnation

Depending on context, may refer to a determination that a building is not fit for use or is dangerous and must be destroyed, or the taking of private property for a public purpose through an exercise of the right of eminent domain.

conditional project approval

The first stage of Fannie Mae's approval of a condo, co-op, or PUD project. It is issued after a preliminary review of the project, and it specifies any conditions that must be satisfied before Fannie Mae will issue a final approval for the project.

conditional tender of payment

A procedure whereby a lender offers a borrower an opportunity to "refinance" a mortgage at minimal or no cost through modification of the existing mortgage, endorsement of the mortgage note, and assignment of the original mortgage, rather than by satisfaction of the existing mortgage debt.

condo

unit in a condominium project

Condo Project Manager (CPM)

A Web-based application available to lenders that supports a lender's Full Review of a condo project by providing key project eligibility questions to assist the lender in determining whether the project meets Fannie Mae's eligibility requirements. CPM is also used to communicate eligibility decisions made by Fannie Mae.

condominium (condo) conversion

Legal change in the ownership of an existing building (usually a rental project) to the condominium form of ownership through the recording of a declaration or master deed.

condominium (condo) hotel

Any project that is managed or operated like a hotel, motel, resort, inn, or lodge where the individual units are either sold as co-op or condo units.

condominium (condo) unit

A unit in a condominium project. Each unit owner has title to their individual unit, an individual interest in the project's common areas, and, in some cases, the exclusive use of certain limited common areas.

conforming mortgage loan

A conventional mortgage loan that has an original loan amount not exceeding the current Fannie Mae loan limit ("current" refers to when Fannie Mae purchased or securitized the mortgage). If a mortgage was originated prior to the current year, the loan limit that was in effect on the origination date is disregarded.

construction-to-permanent mortgage

A mortgage that provides funds for the acquisition or refinancing of unimproved land and the construction of a residential dwelling on the land.

consumer reporting agency (or bureau)

An organization that is engaged in the preparation of reports that are used by credit grantors to determine the credit and public records history of an individual. The agency obtains data for these reports from repositories of accumulated credit records as well as from other sources.

conventional mortgage

A mortgage that is not insured or guaranteed by a federal government agency—the Federal Housing Administration (FHA), the Department of Housing and Urban Development (HUD), the Department of Veterans Affairs (VA), or Rural Development (RD). Conventional mortgages delivered to Fannie Mae must also be conforming mortgages.

converted ARM resale commitment

A type of whole loan commitment to provide coverage for the redelivery of converted ARMs that were originally in an MBS pool that had a take-out post-conversion disposition option.

convertible ARM

A type of adjustable-rate mortgage that includes an option for the borrower to change the mortgage to a fixed-rate mortgage in the early years of the mortgage term.

cooperative (co-op) corporation

A business trust entity that holds title to a co-op project and grants occupancy rights to particular apartments or units to shareholders through proprietary leases or similar arrangements.

cooperative (co-op) mortgages

Mortgages related to a co-op project. This usually refers to multifamily mortgages covering the entire project.

cooperative (co-op) project

A residential or mixed-use building wherein a corporation or trust holds title to the property and sells shares of stock representing the value of a single apartment unit to individuals who, in turn, receive a proprietary lease as evidence of title.

cooperative (co-op) share loan

A loan secured by a co-op unit that finances (or refinances) the purchase of an ownership interest and the accompanying occupancy rights in a co-op housing corporation. It is secured by an assignment of the occupancy agreement and a pledge of the co-op shares.

correction

Action taken by the lender, typically through delivery of documentation or information to Fannie Mae, that demonstrates that the identified significant defect (i) did not, in fact, exist at the time of loan purchase or securitization; or (ii) has been corrected in the time frame and manner specified in the Lender Contract such that the defect is no longer considered by Fannie Mae to be a significant defect.

correspondent origination

A mortgage loan that is originated by a party other than a mortgage loan seller and is then sold to a mortgage loan seller. A lender correspondent performs the loan processing functions (such as taking loan applications; ordering credit reports, appraisals, and title reports; and verifying a borrower’s income and employment) without the assistance of a broker. The lender correspondent typically underwrites the mortgage loan, but correspondent loans may also include mortgage loans where the correspondent has not received delegated underwriting authority from a mortgage loan seller and, accordingly, did not underwrite the loan. The lender correspondent funds the mortgage loan at settlement, and the mortgage loan is closed in the name of the lender correspondent, which may or may not service the mortgage loan.

cost approach to value

A method of measuring the value of a property based on the cost of producing a substitute residence that has the same use as the property that is being appraised.

CPI

Consumer Price Index

CPM

Condo Project Manager

credit life insurance

A type of insurance purchased by a borrower to pay off the mortgage debt if the borrower dies while the policy is in force.

credit score

A numerical value that ranks an individual according to their credit risk at a given point in time, as derived from a statistical evaluation of information in the individual’s credit file that has been proven to be predictive of loan performance. When this term is used by Fannie Mae, it is referring to the classic FICO score developed by Fair Isaac Corporation.

CU

Collateral Underwriter

CUSIP

Committee on Uniform Security Identification Procedures

CUSIP number

A nine-digit number, which is required for book-entry delivery of mortgage-backed securities, that uniquely identifies the MBS to which it is assigned.

custodial account

A bank account that a lender must establish to hold the funds of others—the borrower and Fannie Mae—as opposed to any account established to hold the lender's corporate funds.

E-3-04, Acronyms and Glossary of Defined Terms: D (03/01/2023)

de minimis correction

Minor amount not to exceed $500 (or such higher amount as the lender and Fannie Mae may agree) that, when remitted, refunded, or otherwise provided, corrects or otherwise resolves an identified significant defect.

debt

Borrowed money, the repayment of which may be either secured or unsecured, with various possible repayment schedules.

debt-to-income (DTI) ratio

A ratio derived by dividing the borrower's total monthly obligations (including housing expense) by their stable monthly income. This calculation is used to determine the mortgage amount for which a borrower qualifies. This term is used interchangeably with "total debt-to-income ratio".

deed in lieu of foreclosure (or deed-in-lieu)

A transfer of title from a delinquent borrower to the lender in satisfaction of the mortgage debt to avoid foreclosure; also called a voluntary conveyance.

default

The failure to make a mortgage payment or to otherwise comply with one or more covenants of the mortgage.

defect

A loan-level deficiency that breaches a term contained in the Lender Contract in effect at the time of loan purchase or securitization.

defect rate

The number of loans, expressed as a percentage, reflecting the total loans with defects discovered in the loan review process divided by the total loans reviewed.

delinquency advance

An amount advanced by a lender in respect of interest or principal on one or more mortgage loans, as required by their servicing contract, even though the lender has not collected the actual funds from the related borrowers. A lender may reimburse itself for delinquency advances from subsequent collections in accordance with its servicing contract.

delivery versus payment settlement

Also called “delivery against funds” or “existing issue.” A settlement option for trades of existing MBS under which Fannie Mae will credit the lender’s account at the institution that wires the security to its trading desk as soon as the security is received.

demand

A repurchase or other remedy request issued by Fannie Mae to a responsible party to provide a specific remedy as provided in the Lender Contract.

demand deposit account

A bank account in which the funds are available for withdrawal at any time without penalty.

designated threshold amount

A level of unsecured exposure an “in the money” party will accept before making a margin call on the “out of the money” party.

desktop appraisal

An appraisal assignment for which the appraiser completes the appraisal without physically inspecting the property, using data from various sources (real estate agents, homeowners, MLS, tax records, etc).

Desktop Originator (DO)

A Web-based application that gives originators access to DU through a sponsoring lender.

Desktop Underwriter (DU)

Fannie Mae’s automated underwriting system.

deterioration

See *physical depreciation*.

direct surety bond

A class of bond that is written to afford protection for the direct acts of the principal in the event of a loss caused by the principal's negligence, lack of ability, or dishonest act.

disbursement date

The date the loan funds are disbursed for the subject mortgage. The disbursement date may occur on or after the note date.

discount

The amount by which the sales price of a note is less than its face value. The purpose of a discount is to adjust the yield upward in lieu of interest.

DO

Desktop Originator

Document Certification

A Web-based application for document custodians to electronically submit whole loan and MBS pool certifications to Fannie Mae and the lender. It also can be used to give a warehouse lender notification about the lender's wiring instructions.

document custodian

A financial institution that maintains custody of certain mortgage documents on behalf of Fannie Mae.

domestic partner

An unrelated individual who shares, and intends to continue sharing, a committed relationship with a borrower who signs the note.

DTI

Debt-to-income ratio

DU

Desktop Underwriter

due-on-sale provision

A provision in a mortgage that allows the lender to demand full payment of the outstanding balance if the mortgaged property is transferred without the lender's permission.

E-3-05, Acronyms and Glossary of Defined Terms: E (12/14/2022)

earnest money deposit

A deposit submitted with a purchase offer to show that the buyer's offer is being made in good faith.

eBoutique

A Web-based application that supports the servicing of reverse mortgages.

economic obsolescence

See *external depreciation*.

electronic

Relating to technology having electrical, digital, magnetic, wireless, optical, electromagnetic, or similar capabilities.

electronic imaging

A method of reproducing a facsimile of a document or photograph with a computer or another electronic device.

electronic mortgage (eMortgage)

A mortgage for which the promissory note and possibly other documents (such as the security instrument and loan application) are created and stored electronically rather than by using traditional paper documentation that has a pen and ink signature. Most (but not all) eMortgages typically consist of a paper security instrument and an electronic note. The terms "electronic mortgage," "electronic mortgage loan," "eMortgage," and "eMortgage loan" used in this Guide have the same meaning.

electronic record

A contract or other record created, generated, sent, communicated, received, or stored by electronic means.

electronic signature

An electronic sound, symbol, or process, attached to or logically associated with, a contract or other record executed or adopted by a person with the intent to sign the record.

employer-assisted housing mortgage

Any mortgage for which a borrower's employer is either offering mortgage payment assistance or providing down payment or closing costs assistance (through a grant, an unsecured loan, or a secured subordinate mortgage).

environmental hazard assessment

An evaluation of the environmental soundness of a project development based on information gathered from various sources. A Phase I assessment involves a screening process that focuses on reviewing available documentation, interviewing people knowledgeable about the project, and inspecting the site, the building, and adjoining properties. A Phase II assessment provides a more detailed review of the site (with specific physical sampling for each hazard that was not acceptable under the Phase I assessment) and a review of historical records to determine the presence or absence of specific environmental liabilities or to quantify the extent of an observed or suspected environmental liability.

errors and omissions insurance

Insurance which protects a business or organization against liability as a result of committing an error or omission in performance of professional duties.

escrow account

A trust account that is established to hold funds allocated for the payment of a borrower's property taxes and assessments by special assessment districts, ground rents, insurance premiums, condo or homeowners' association or planned unit development association dues and similar expenses as they are received each month in accordance with the borrower's mortgage documents and until such time as they are disbursed to pay the related bills.

ESIGN

Electronic Signatures in Global and National Commerce Act. A federal law that gives broad legal effect to the use of electronic signatures and records in interstate commerce.

existing issue

See *delivery versus payment settlement*.

external depreciation (economic obsolescence)

A loss in value that is caused by negative influences that are outside of a property's site, such as economic factors or environmental changes.

E-3-06, Acronyms and Glossary of Defined Terms: F (12/14/2022)

facsimile signatures

A form of signature that is electronically reproduced or copied in another acceptable manner. Such signatures are acceptable under certain conditions as long as they are valid and enforceable in the jurisdictions in which they are used.

factory-built housing

Prefabricated single-family housing (such as panelized, modular, or sectional housing), which is constructed in a factory (and, if applicable, in accordance with the building codes of the state in which the factory is located) and is subsequently joined together at a permanent building site, assumes the characteristics of site-built housing (such as permanent connections to water, electrical, and waste disposal systems), and is legally classified as real property. (Collectively, this term also may refer to HUD code manufactured homes. See the definition of that term for distinctions between the different types of factory-built housing.)

Fair Access to Insurance Requirements (FAIR) plan

A state-run or state-sponsored insurance plan that provides property insurance to property owners who cannot obtain it in the voluntary insurance market.

FAIR plan

See Fair Access to Insurance Requirements (FAIR) plan.

Fannie Mae

Federal National Mortgage Association.

Fannie Mae Connect

A Web-based application that allows lenders to access, view, and download reports on pools and whole loans submitted to Fannie Mae through Loan Delivery.

Fannie Mae losses

Losses, damages, penalties, settlements, liabilities, judgments, claims, counterclaims, defenses, actions, costs, expenses, attorneys' fees, and other legal fees (collectively, “Fannie Mae losses” or “losses incurred by Fannie Mae”).

Fannie Majors

See *multiple pool*.

Federal Emergency Management Agency (FEMA)

A federal agency that provides assistance in areas that have suffered a major disaster or other emergency. It also maintains flood insurance rate maps that identify the Special Flood Hazard Areas in which Fannie Mae requires flood insurance.

Federal Emergency Management Agency (FEMA) disaster area

A city, county, or parish designated by FEMA as eligible for individual assistance as a result of a natural disaster.

Federal Housing Administration (FHA)

FHA, also a part of HUD, provides mortgage insurance on loans made by FHA-approved lenders.

Federal Housing Finance Agency (FHFA)

The safety, soundness, and mission regulator for Fannie Mae. FHFA replaced the former regulator, the Office of Federal Housing Enterprise Oversight (OFHEO).

fee simple estate

An unconditional, unlimited estate of inheritance that represents the greatest estate and most extensive interest in land that can be enjoyed. It is of perpetual duration. When the real estate is in a condo project, the unit owner is the exclusive owner only of the air space within their portion of the building (the unit) and is an owner in common with respect to the land and other common portions of the property.

FEMA

Federal Emergency Management Agency

FHA

Federal Housing Administration

FHA-insured mortgage

A mortgage by the FHA; may be referred to as a "government" mortgage.

FHFA

Federal Housing Finance Agency

FHLMC

Federal Home Loan Mortgage Corporation

fidelity bond

See fidelity/crime insurance.

fidelity/crime insurance

Insurance which protects a business or organization against economic loss as a result of fraudulent and dishonest acts committed against them.

final project approval

The eligibility determination that is issued for a condo, PUD, or co-op project to indicate that the project's physical characteristics and marketability are acceptable to Fannie Mae, and that mortgages or share loans on units within the project may be delivered to Fannie Mae for purchase or securitization.

financed mortgage insurance premium

A mortgage insurance premium for which the borrower is not required to make an advance payment from their own funds. Rather, the amount required to pay for a lump-sum premium is financed by including it as part of the original mortgage amount.

Financial Institutions Reform, Recovery, and Enforcement Act

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 modified federal laws governing thrift and bank regulation. Title XI of the Act includes real estate appraisal reform amendments.

first mortgage

A mortgage that is the primary lien against a property.

first-time homebuyer

An individual is to be considered a first-time homebuyer who (1) is purchasing the security property; (2) will reside in the security property as a principal residence; and (3) had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the security property. In addition, an individual who is a displaced homemaker or single parent also will be considered a first-time homebuyer if they had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year time period.

fiscal year

Any 12-month period used for financial reporting and preparation of balance sheets, profit and loss statements, and other financial summaries.

fixed installment

That portion of a mortgage payment that is applied toward principal and interest. When a mortgage negatively amortizes, the fixed installment does not include any amount for principal reduction.

fixed-rate mortgage

A mortgage that provides for only one interest rate for the entire term of the mortgage. Fannie Mae acquires fixed-rate mortgage loans that are fully amortizing.

flood insurance

Insurance which protects the insured against loss or damage to their property resulting from flooding.

Flood Insurance Rate Map (FIRM)

The official map of a community on which FEMA has delineated both the special hazard areas and the risk premium zones applicable to the community.

forbearance

Willingness to refrain, in full or in part, from pursuing remedies against a delinquent borrower for a period of time (specified or unspecified), but without modification of the loan terms. See also *modification* .

foreclosure

The legal process by which a borrower in default under a mortgage is deprived of their interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

Freddie Mac

Federal Home Loan Mortgage Corporation (FHLMC). A congressionally chartered corporation that purchases mortgage loans in the secondary mortgage market.

FRM

fixed-rate mortgage

full payment amount

The monthly payment required, at each interest change date, to amortize the then outstanding principal balance of an ARM at the new interest rate over the remaining mortgage term.

fully amortizing ARM

An adjustable-rate mortgage that has a monthly payment sufficient to amortize the unpaid principal balance-at the interest accrual rate-over the mortgage term.

functional depreciation (obsolescence)

A loss in value that is caused by defects in the design of a structure or by changes in market preferences that result in some aspect of a property being considered obsolete by current standards.

E-3-07, Acronyms and Glossary of Defined Terms: G (12/14/2022)

GAAP

generally accepted accounting principals

general liability insurance

Insurance which protects a business or organization against liability resulting from bodily insurance or property damage.

GLA

gross living area

good delivery

The delivery of mortgage-backed securities to Fannie Mae's trading desk at the parameters agreed on at the time of the trade and in an amount that meets the minimum trade requirements; the delivery of eligible portfolio mortgages that meet all of Fannie Mae's legal and underwriting criteria and that satisfy the terms of the original cash commitment before the expiration date of the commitment.

government mortgage loan

A mortgage loan that is insured or guaranteed by a government agency. Examples include FHA-guaranteed mortgage loans, VA-insured mortgage loans, and RD-guaranteed mortgage loans.

ground rent

The amount of money that is paid for the use of land when title to a property is held as a leasehold estate, rather than as fee simple.

group home

A residential structure that is or will be occupied by persons with disabilities irrespective of familial relationship.

GSE

government-sponsored enterprise

guaranty fee

Compensation that a lender pays Fannie Mae for the right to participate in the MBS program. The amount of the fee will differ depending on whether the lender selects the regular or special servicing option.

guaranty fee buydown

An agreement to reduce the guaranty fee remittance rate for an MBS mortgage below the contractual rate for the applicable servicing option and remittance cycle in return for the lender's payment of a fee to Fannie Mae.

guaranty fee buyup

An agreement to increase the guaranty fee remittance rate for an MBS mortgage above the contractual rate for the applicable servicing option and remittance cycle in return for Fannie Mae's paying a fee to the lender.

Guide

The Fannie Mae and, as modified, amended, or supplemented from time to time.

gut rehabilitation project

A project that has been developed by rehabilitating an existing building and creating individual units. The building is stripped down to its shell and, as rehabilitated, contains all new mechanical equipment including heating, exhaust, insulation, roofing, plumbing, and electrical. Individual units and common areas have new interiors, fixtures, appliances, and flooring.

E-3-08, Acronyms and Glossary of Defined Terms: H (04/05/2023)

HCLTV

home equity combined loan-to-value

HELOC

home equity line of credit

HERA

Housing and Economic Recovery Act of 2008

higher-priced covered transaction

A mortgage loan that meets the corresponding definition under Regulation Z of the Truth in Lending Act, and applies to both principal residences and second homes.

higher-priced mortgage loan

A mortgage loan that meets the corresponding definition under Regulation Z of the Truth in Lending Act. Only principal residences are included in this category.

HOA

homeowners' association

HOEPA

Home Ownership and Equity Protection Act of 1994

home equity combined-loan-to-value ratio (HCLTV)

A ratio that is used when a mortgage financing package includes home equity lines that are potential liens; a ratio that is developed by dividing the sum of the original loan amount of the first mortgage, the amount of the HELOC (whether or not there have been any draws), and the unpaid principal balance of all other subordinate financing by the lower of the property's sales price or appraised value.

home equity line of credit (HELOC)

A mortgage loan, which is usually in a subordinate position, that allows the borrower to obtain cash advances at their discretion, up to an approved amount that represents a specified percentage of the borrower's equity in a property.

homeowners' association (HOA)

An entity formed to manage the day-to-day operation and long term interests of residential dwelling communities, including condo, co-op, and PUD projects. The HOA is typically created and vested with specific roles, responsibilities, and rights by the project's legal documents in compliance with applicable laws. For Fannie Mae's purposes, the term "HOA" includes a homeowners' association, a common interest community association, a cooperative corporation, and other similar entities.

homeowner's insurance

See property insurance.

HomePath property

A HomePath property is a property that was owned and sold by Fannie Mae through a transaction resulting in the disposition of its real estate owned.

HomeReady

Fannie Mae's flexible, affordable lending product designed to meet the needs of low- to moderate-income homebuyers and homeowners. HomeReady is a standard product with underwriting recommendations available through DU and manual underwriting.

HomeStyle Renovation mortgage

A mortgage that enables eligible borrowers to obtain financing to renovate, remodel, repair, or upgrade their existing home or a home that they are purchasing.

housing expense ratio

A ratio derived by dividing the borrower's monthly housing expense by their stable monthly income.

HUD

Department of Housing and Urban Development

HUD-1

HUD-1 Settlement Statement. See "settlement statement."

HUD-guaranteed mortgage

A mortgage guaranteed under Section 184 of the Housing and Community Development Act of 1992, which created the Native American Housing Loan Guarantee Fund.

hybrid appraisal

Property data collected by a trained and vetted third party (real estate agent, insurance inspector, appraiser, etc.) is passed to an appraiser to perform an enhanced version of a desktop appraisal.

E-3-09, Acronyms and Glossary of Defined Terms: I (05/03/2023)

IDR

Independent Dispute Resolution

impasse process

An option available to an eligible lender to use to resolve loan-level disputes that were not resolved through the appeal process.

in-file credit report

An objective account, normally computer-generated, of credit and public record information obtained from a credit repository.

inclusionary zoning

A practice by which state or local governments impose zoning restrictions that require a specified percentage of new development in a designated area to be set aside to provide housing for low- and moderate-income persons.

income and resale price restrictions

Legally enforceable limits on maximum income for buyers and transferees of, and maximum permissible sales price for, a shared equity residential property; these are intended to keep the property affordable for subsequent purchasers.

income approach to value

A method of measuring the value of a property based on the market rent or income that the property can be expected to earn.

Independent Dispute Resolution (IDR)

IDR is a process that is available for eligible lenders to use to resolve loan-level disputes that were not resolved through the appeal, impasse, or management escalation processes.

index

A number used to compute the interest rate for an ARM. The index is generally a published number or percentage, such as the average interest rate or yield on U.S. Treasury bills. A margin is added to the index to determine the interest rate that will be charged on the ARM. This interest rate is subject to any caps on the maximum or minimum interest rate that may be charged on the mortgage, as stated in the note.

index disclosed to the borrower

The value of the selected index for an ARM that is given to the borrower when the mortgage is closed. When subsequent index values differ from this value, it reflects changes in market conditions.

initial interest rate

The original interest rate of the mortgage when it is closed. This rate (which is often referred to as the "start rate") changes for adjustable-rate mortgages. Also referred to as the initial note rate.

installment debt

Borrowed money that is repaid in several successive payments, usually at regular intervals, for a specific amount and for a specified term (for example, an automobile loan or a furniture loan).

installment land contract

An agreement to transfer title to a property once conditions of the contract have been fulfilled. Also known as a contract or bond for deed.

institutional lender

A financial institution that invests in mortgages and keeps them in its own portfolio.

interest accrual rate

The percentage rate at which interest accrues on the mortgage. In most cases, it is also the rate used to calculate the monthly payments.

interest rate buydown plan

An arrangement wherein the property seller or any other party deposits money to an account so that it can be released each month to reduce the borrower's payments during the early years of a mortgage. During the specified period, the borrower's effective interest rate is "bought down" below the actual mortgage interest rate.

interest rate cap

For an adjustable-rate mortgage (ARM), a limitation on the amount the interest rate can change per adjustment or over the lifetime of the loan, as stated in the note.

interest rate change date

The date on which the mortgage interest rate changes for an ARM; the date on which interest begins to accrue at a new rate for an ARM MBS pool.

interest rate change interval

The period that elapses between interest rate change dates for an ARM.

interest rate differential

See *yield difference*.

interest rate shortfall

The interest rate shortage that occurs when Fannie Mae's return on a mortgage (the net note rate) is less than Fannie Mae's required yield.

interested party contributions

Costs that are normally the responsibility of the property purchaser that are paid (directly or indirectly) by someone else who has a financial interest in, or can influence the terms and the sale or transfer of, the subject property. These persons or entities include, but are not limited to, the property seller, the builder/developer, and the real estate agent or broker (or an affiliate who may benefit from the sale of the property and/or the sale of the property at the highest price possible).

intermediate-term mortgage

A mortgage that amortizes over an original term from 10 to 20 years.

investor-purchased mortgage insurance

Mortgage insurance coverage obtained by Fannie Mae after the purchase of a mortgage; a type of financial backing used for some second mortgages in lieu of borrower-purchased or lender-purchased mortgage insurance.

IRS

Internal Revenue Service

issue date

The first day of the month in which MBS backed by an MBS pool of mortgage loans are issued.

issue date principal balance

The principal balance of each mortgage in an MBS pool after crediting the principal portion of any monthly payments due on or before the issue date for the related MBS (whether or not it was actually collected) and after crediting any unscheduled partial payment or other recovery of principal received on or before the issue date (as long as it was not accompanied by payment of an interest amount that represented scheduled interest due for the month after the payment was made).

E-3-10, Acronyms and Glossary of Defined Terms: J (04/01/2009)

No applicable terms.

E-3-11, Acronyms and Glossary of Defined Terms: K (12/14/2022)

No applicable terms.

E-3-12, Acronyms and Glossary of Defined Terms: L (09/04/2018)

last paid installment date

The due date of the last paid installment that had been collected for the mortgage.

late charge

A penalty that a borrower must pay when a mortgage payment is made a stated number of days (usually a minimum of 15) after its due date.

lease

A written agreement between the property owner and a tenant that stipulates the conditions under which the tenant may possess the real estate for a specified period of time and rent.

leasehold estate

A way of holding title to a property wherein the borrower does not actually own the property but rather has a recorded long-term lease on it.

lender-purchased mortgage insurance

Mortgage insurance coverage for a conventional mortgage loan that the lender pays for by using its own funds, rather than requiring the borrower to include periodic accruals for such coverage as part of their mortgage payment.

limited cash-out refinance

A refinance transaction in which the mortgage amount generally is limited to the sum of the unpaid principal balance of the existing first mortgage, closing costs (including prepaid items), points, and the amount required to satisfy any mortgage liens if the documented proceeds of the subordinate financing were solely used to acquire the property (if the borrower chooses to satisfy them), and other funds for the borrower’s use (as long as the amount does not exceed the lesser of $2000 or 2% of the principal amount of the new mortgage).

limited liability company (LLC)

A flexible form of business enterprise that blends elements of partnership and corporate structures.

living trust

See *inter vivos revocable trust*.

LLC

limited liability company

LLPA

loan-level price adjustment

loan amount

The original amount of the loan as indicated by the note; also known as the original loan amount or original principal balance.

Loan Delivery

A Fannie Mae Web-based application that allows a lender to electronically prepare, edit, and transmit information from the Schedule of Mortgages for various MBS pool purchase transactions and whole loan/cash deliveries.

loan estimate

A form required by federal law that provides disclosures to borrower(s) to help them understand the key features, costs, and risks of the mortgage loan for which they are applying. References to the “loan estimate” include the Loan Estimate and Good Faith Estimate forms, as applicable, based on the application date of the mortgage loan.

Loan Quality Center (LQC)

A division of Fannie Mae that reviews acquired loans to confirm that the loans meet underwriting and eligibility requirements.

loan-level price adjustment (LLPA)

LLPAs are assessed based on certain eligibility or other loan features, such as credit score, loan purpose, occupancy, number of units, product types, etc. For whole loan transactions, LLPAs will be deducted from (or credited to) the loan proceeds.

loan-to-value (LTV) ratio

The relationship between the original loan amount of the first mortgage and the property’s appraised value (or sales price, if it is lower).

long-term standby purchase commitment

A negotiated structure that enables a lender to reduce its credit exposure by paying a monthly commitment fee on an identified portfolio of mortgages in exchange for the lender’s agreement to deliver on a mandatory basis, and Fannie Mae’s agreement to purchase any mortgage at par should it become a specified number of months delinquent after the date of the commitment.

look-back period

The date on which the index value that will be used to establish the next interest rate change for an ARM is determined. It is a specified number of days (at least 45) before the interest rate change date.

LOS

Loan Origination System

losses incurred by Fannie Mae

See *Fannie Mae losses*.

LQC

Loan Quality Center

LTV

loan-to-value

E-3-13, Acronyms and Glossary of Defined Terms: M (12/14/2022)

make whole payment

The amount that a party responsible for a breach of a selling representation or warranty or a servicing breach must pay Fannie Mae so that Fannie Mae does not incur a loss on the mortgage or the property.

management escalation process

An option available to an eligible lender to use to resolve loan-level disputes that were not resolved through the appeal or impasse processes.

mandatory delivery commitment

A whole loan commitment that generally requires the lender to deliver eligible mortgages equal to at least the minimum required delivery amount (which is an amount that will not be less than the original commitment amount by more than $10,000 or 2.5% of the original amount) by the expiration date of the commitment.

margin

The amount that is added to an index value to create the mortgage interest rate for an ARM; an amount (expressed as a percentage) that is used in the calculation of the purchase price for an As Soon As Pooled transaction.

margin call

When two parties have entered into one or more MBS trades, one party has the right to request funds from the other party due to a change in the market value of the securities. The right of one party to make a margin call on another party may be subject to a designated threshold amount and minimum transfer amount.

market data approach

See *sales comparison approach to value*.

market-rate option

A post-conversion disposition option that allows the lender to determine whether it wants to redeliver a repurchased convertible adjustable-rate mortgage that was in an MBS pool to Fannie Mae following its conversion to a fixed-rate mortgage or to retain the repurchased mortgage for its portfolio.

master association

A governing association in a large condo or PUD community that is made up of representatives from associations covering specific areas within the project. In effect, it is an “umbrella” association that handles matters affecting the entire development, while the “sub” associations handle matters affecting their particular portions of the project.

master servicer

A Fannie Mae approved servicer that is contractually obligated to service one or more mortgage loans for Fannie Mae and has contracted with a subservicer under a subservicing arrangement.

maximum claim amount

The lesser of the appraised value of a property and the maximum loan amount that FHA can insure for a one-unit residence in the area where the property is located; a component that is used in determining the borrower's principal limit for an FHA home equity conversion mortgage.

maximum pool accrual rate

The maximum interest rate that can accrue on an ARM MBS pool. For stated-structure ARM MBS pools, it must be evenly divisible by 0.125% and must be less than or equal to the lowest mortgage interest rate ceiling in the pool (after appropriate deductions have been made for the guaranty fee and the minimum servicing fee).

maximum weighted-average pool accrual rate

The weighted average of the mortgage interest rate ceilings (less the lender's retained spread) of the mortgages in a weighted-average ARM MBS pool.

MBS

mortgage-backed security

MBS Express pool

An MBS pool for which the servicer remits “unscheduled” principal payments to Fannie Mae on the 4th business day of the month and “scheduled” principal and interest payments on the 18th calendar day (or the preceding business day if the 18th is not a business day).

MBS Express remittance cycle

A payment cycle used for scheduled/scheduled remittance types for MBS pools that has two different remittance dates—one for unscheduled principal payments and one for scheduled principal and interest payments.

MBS margin

One of the factors used to establish the pool accrual rate for an ARM MBS pool on each interest rate change date. For stated-structure ARM MBS pools, it is the difference between the lowest mortgage margin in the pool and the sum of the guaranty fee and the minimum servicing fee. For weighted-average ARM MBS pools, the MBS margin may be a fixed margin that the lender specifies or a weighted-average margin. A “fixed” MBS margin is attained by varying the servicing fee for individual mortgages to equalize the differences in their mortgage margins. A “weighted-average” MBS margin is attained by reducing the various mortgage margins by the applicable guaranty fee and a fixed servicing fee that the lender specifies, thus developing a different MBS margin for each mortgage.

MBS mortgage

A mortgage or participation interest in a mortgage that is part of an MBS pool.

MBS pool

All of the mortgages or participation interests in mortgages (delivered under one or more contracts) that will secure an individual issuance of MBS.

MBS pool delivery

Group or groups of mortgages (or participation interests in mortgages) delivered by a lender for the purpose of creating a pool to back an MBS issuance. These deliveries are accepted in one or more pool purchase transactions, rather than being accepted as individual mortgages (or participation interests) to be held in Fannie Mae's portfolio. Deliveries under this program are, therefore, referred to as MBS pool deliveries.

Megas

A pass-through security backed by groups of existing Fannie Mae MBS or other existing Megas.

MERS

Mortgage Electronic Registration Systems, Inc.

MI

mortgage insurance

MIN

MERS identification number

minimum borrower contribution

The minimum borrower contribution is an amount of funds described as a percentage that is generally required to be paid toward the down payment, closing costs, and financial reserves. The contribution may be required from the borrower's own funds or in some cases from other eligible sources of funds.

minimum coupon rate

The rate of interest due Fannie Mae for a participation pool, which ensures that Fannie Mae receives the required yield and the servicer receives an appropriate servicing fee; it is generally derived by multiplying the required commitment yield by Fannie Mae's percentage interest in the pool and then adding the applicable minimum servicing fee to the result.

minimum transfer amount

A specified amount of money that must be exceeded before a margin call can be made.

mixed use project

A project comprised of residential and non-residential (commercial) space, often featuring separate associations that represent the different components.

modification

The act of changing any of the terms of the mortgage by agreement between the borrower and the note holder.

monthly operating income

Income from the rental of an investment property that is determined by reducing the annual effective gross income for the property by the annual operating expenses and dividing the result by 12. This calculation is used to determine whether a borrower who will occupy one unit of a two- to four-unit property as their principal residence qualifies for a mortgage.

monthly payment

The monthly payment of principal and interest collected by mortgage lenders. This may also include escrow items for taxes and insurance and is therefore called the housing payment.

monthly payment mortgage

A mortgage that requires payments to reduce the debt once a month.

monthly remittance

The total of the interest and principal distribution amounts that a lender is obligated to remit to Fannie Mae on each remittance date. For scheduled/scheduled remittance types, this represents scheduled principal reductions and scheduled interest accruals, whether or not payments were collected from the borrowers. For scheduled/actual remittance types, this represents scheduled interest accruals (whether or not payments were collected from the borrowers) and actual principal collections.

Moody's Investors Service

A credit rating agency that, among other things, assigns credit ratings to debt issuers and the debt instruments themselves, as well as to title insurance companies and custodial depositories, by evaluating their assets and liabilities.

mortgage

Collectively, the security instrument, the note, the title evidence, and all other documents and papers that evidence the debt (including the chattel mortgage, security agreement, and financing statement for a co-op share loan).

mortgage impairment insurance

Insurance for lenders and servicers which provides coverage for their interest in a mortgaged property in the event of uninsured or underinsured property damage.

mortgage insurance (MI)

A financial backing type under which a private insurer (and sometime a state or local entity) insures the mortgagee against losses from borrower default, by agreeing to cover a percentage of the losses in return for the payment of a specified mortgage insurance premium.

mortgage interest rate

The rate of interest in effect for the periodic installment due. For fixed-rate mortgages or for ARMs that have an initial fixed-rate period, it is the rate in effect during that period. For ARMs after any initial fixed-rate period, it is the sum of the applicable index and the mortgage margin (rounded as appropriate and subject to any per-adjustment or lifetime interest rate ceilings).

mortgage interest rate ceiling

For an ARM, the maximum interest rate over the life of the loan. It is determined by applying a “lifetime cap” to the initial mortgage interest rate.

mortgage loan

An individual secured loan that is sold to Fannie Mae as a whole loan or in a pool of mortgages underlying Fannie Mae-guaranteed MBS. The term includes a participation interest in a mortgage loan where context requires. In this Guide, a mortgage loan also may be referred to as a mortgage or a loan.

mortgage loan insurance

See *credit life insurance*.

mortgage margin

The amount that is added to the index value to establish the mortgage interest rate on each interest rate change date (subject to any limitations on the interest rate change) for an ARM.

mortgage note

The note or other evidence of indebtedness for a mortgage loan.

mortgage-backed security (MBS)

An investment instrument that represents an undivided interest in a pool of mortgages.

mortgagee interest insurance

See *mortgage impairment insurance*.

MSSC

Mortgage Selling and Servicing Contract

multi-dwelling units

Properties that provide separate housing units for more than one family, although they secure only a single mortgage; e.g., two to four units.

multi-width manufactured home

A manufactured home that is created by joining two or more sections that are built and towed separately to the site, then joined together to create one living unit. The home is permanently affixed to the land and is legally classified as real property.

multifamily mortgage

A residential mortgage on a dwelling that is designed to house more than four families, such as a high-rise apartment complex.

multiple pool

An MBS pool that consists of pools of mortgages delivered by more than one lender; also called Fannie Majors.

multiple pool transaction

An MBS transaction in which mortgages delivered by several individual lenders are combined into one large pool for the sole purpose of backing all or part of an issuance of MBS.

municipal utility districts

See *special assessment districts*.

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National Credit Union Administration (NCUA)

The regulator of the credit union industry.

NCLTN

National Community Land Trust Network

NCUA

National Credit Union Administration

net cash flow

The income that remains for an investment property after the monthly operating income is reduced by the monthly housing expense (which includes PITI for the mortgage, homeowners' association dues, leasehold payments, and subordinate financing payments).

net mortgage ceiling

The mortgage ceiling for an adjustable-rate mortgage after the minimum servicing fee has been subtracted.

net mortgage interest rate

The mortgage interest rate less the lender's servicing spread (which may be a minimum servicing fee plus any excess yield or a servicing fee and a guaranty fee, depending on whether the mortgage is a portfolio mortgage or an MBS mortgage).

net mortgage margin

The mortgage margin shown in the ARM note and rider after the minimum servicing fee has been subtracted.

net note rate

The mortgage interest rate after the applicable servicing fee and any guaranty fee for Fannie Mae's various product types have been subtracted.

net worth

The value of all of a company's (or individual's) assets—including cash—less its total liabilities. It is used to indicate financial strength.

newly converted project

A condo or co-op project that was converted from an apartment or other use is defined as a newly converted project until it fully meets Fannie Mae's definition of an established project.

NIS

National Industry Standards for Homeownership Education and Counseling

non-gut rehabilitation

A project that has been developed by rehabilitating an existing building and converted into individual units. The building, its mechanical equipment, and individual units typically have not been substantially rehabilitated or replaced.

NPI

Nonpublic personal information

E-3-15, Acronyms and Glossary of Defined Terms: O (11/10/2014)

obsolescence

See *functional depreciation*.

OFAC

Office of Foreign Assets Control

operating expenses

The costs of maintaining an investment property, such as expenses for electricity, gas, fuel oil, water/sewer, trash removal, pest control, license fees, painting/decorating, general repairs/maintenance, supplies, casual labor, professional management fees, and replacement reserves.

original issue settlement

The standard settlement option for a newly originated MBS, which results in the mortgage-backed security being assigned directly to Fannie Mae when the pools are delivered, and subsequently being delivered to the trading desk (which will wire the funds to pay for the security to the lender on the settlement date).

original loan amount

See *loan amount*.

origination fees

The fee(s) charged by a lender to prepare loan documents, make credit checks, inspect, and sometimes appraise a property. The fee(s) are usually computed as a percentage of the face value of the mortgage.

E-3-16, Acronyms and Glossary of Defined Terms: P (12/14/2022)

P&I

principal and interest

pair-off

A process under which a lender that is unable to meet the terms of a mandatory delivery commitment either pays Fannie Mae a fee or, under certain circumstances for whole loan transactions, receives cash back from Fannie Mae, calculated against the unused portion of the commitment.

PAL

price-adjusted loan

par

The face value of the mortgage (the unpaid principal balance) equals its selling price (100%—there are no discounts or premiums).

participation certificate

The instrument that evidences an undivided interest in mortgages and obligations secured thereby.

participation interest

An individual interest in a mortgage, as specified in the applicable participation certificate.

pass-through rate

The rate at which interest is paid to Fannie Mae for a mortgage. For mortgages held in Fannie Mae's portfolio, it is the lower of the required yield or the mortgage interest rate after deduction of a minimum servicing fee.

payee code

A number used to identify warehouse or wire transfer banks, which the lender places on its loan schedule for cash deliveries to ensure that purchase proceeds are sent to the appropriate party (if they are to be paid to anyone other than the lender).

payment change date

The date on which the payment changes for an ARM; the effective date that a new amount is due from a borrower. It must fall in the month immediately following an interest rate change date (unless an ARM provides for the monthly payment to change more frequently than the interest rate).

payment rate

The percentage rate used to calculate the mortgage payment when the payment will not fully amortize the mortgage. It differs from the interest accrual rate.

paystub

A paystub, pay slip, pay advice, paycheck notice, or payroll earnings statement is a document produced by the borrower's employer and provided to the borrower that evidences the borrower's income. Paystubs typically detail the gross income and all taxes and other deductions, such as retirement plan contributions, insurance, garnishments, or charitable contributions taken out of the gross amount for the current pay period. Paystubs generally include year-to-date earnings.

PERS

Project Eligibility Review Service

physical depreciation (deterioration)

A loss in value that is caused by deterioration in the physical condition of a property’s improvements.

PITI

principal, interest, taxes, and insurance

PITIA

principal, interest, taxes, insurance, and other assessments

planned unit development (PUD)

A project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD unit owners. The unit owners in the project have title to a residential property (lot and structure) and an interest in the HOA that owns or manages the common areas and facilities of the PUD.

pool

A collection of mortgages (or participation interests) delivered pursuant to one or more pool purchase contracts that secure an individual issuance of MBS.

pool accrual rate

The rate of interest that accrues to the security holder of a stated-structure ARM MBS pool. It is subject to change in accordance with adjustments to the index.

pool issue date

The first day of the month in which MBS are issued.

pool purchase contract

A contract between Fannie Mae and a lender to buy and sell mortgages or participation interests for inclusion in an MBS pool. It will be uniquely identified by a pool purchase contract number that appears on its face.

pool purchase transaction

Any MBS transaction between Fannie Mae and a lender in which Fannie Mae purchases a group of mortgages or participation interests from the lender for the sole purpose of backing all or part of an issuance of MBS.

pool transaction amount

The total of the issue date principal balances of all mortgages or participation interests included in a pool purchase transaction.

portfolio mortgage

A whole mortgage purchased by Fannie Mae to hold in its mortgage portfolio.

prearranged refinancing agreement

A formal or informal arrangement between a lender and a borrower wherein the lender agrees to offer special terms (such as a reduction in costs) for a future refinancing of a mortgage being originated as an inducement for the borrower to enter into the original mortgage transaction.

premium pricing

When a borrower elects to pay a higher interest rate on a mortgage loan in exchange for a lender credit provided at closing (also referred to as premium financing).

prepayment penalty

A charge imposed for paying all or part of the transaction’s principal before the date on which the principal is due, other than a waived, bona fide third-party charge that the lender imposes if the borrower prepays all of the transaction’s principal sooner than 36 months after loan closing.

price differential

The aggregate amount obtained by applying the pricing rate for an As Soon As Pooled Plus transaction to the purchase price on a daily basis (using a 360-day year) for the actual number of elapsed days beginning with the purchase date and ending with the date preceding the repurchase date.

price-adjusted loan (PAL)

One or more defects that, when considered with other loan features, and based on the facts of the loan as purchased or securitized by Fannie Mae, result in a loan that was otherwise eligible for delivery to Fannie Mae had the correct data been delivered and LLPA been paid to Fannie Mae by the lender.

pricing rate

The per annum percentage rate that is used for determining the price differential between the purchase price and the repurchase price for an As Soon As Pooled Plus transaction.

principal distribution amount

For a particular remittance date, Fannie Mae's share of the aggregate principal portions of the monthly installments for mortgages in an MBS pool that became due from the second day of the preceding month to and including the first day of the remittance month (whether or not they were actually collected) and those unscheduled principal recoveries that were collected during the month preceding the month in which the remittance is made. This is the principal amount that will be drafted from the servicer's custodial account.

project

A dwelling or dwellings comprising two or more single-family units established as a condo, co-op, or PUD project.

project development

See *project*.

project documents

Recorded legal documents for a project and any master association that pertain to the formation of the project, the rights of the developer and limitations on the actions of the developer, the operation of the association, and sales of units in the project. The documents include, but are not limited to, the declaration of condominium or master deed; by-laws, rules, and regulations; articles of incorporation; governing documents; covenants, conditions, and restrictions (CC&Rs); offering circulars; and agreements as applicable to the project as well as any documents related to a master association or the overall project.

project legal phase

A development phase that is defined in the project documents. A project legal phase is not the same as a construction or marketing phase.

property insurance

Insurance which protects the insured against loss or damage to their property when the loss or damage is caused by a covered peril. Homeowners 3 — Special Form (HO-3) and Homeowners 6 — Unit Owners Form (HO-6) are commonly used property insurance forms.

proprietary lease

A lease that a co-op corporation gives to a tenant-stockholder to cover the unit that they will occupy. The lease is called proprietary because the tenant-stockholder is both a shareholder in the landlord co-op corporation and a tenant under the lease.

PUD

planned unit development

purchase date

The date on which Fannie Mae disburses the purchase proceeds for a whole loan delivery; the date on which Fannie Mae purchases a pool or mortgage loan in an early funding transaction.

purchase money transaction

A transaction used to acquire a property or finance the acquisition and construction or rehabilitation of a property. All aspects of the transaction must be in U.S. dollars.

E-3-17, Acronyms and Glossary of Defined Terms: Q (04/01/2009)

No applicable terms.

E-3-18, Acronyms and Glossary of Defined Terms: R (09/02/2020)

rapid payment method (RPM)

A payment cycle used for scheduled/scheduled remittance types for MBS pools that has an early remittance date (usually the tenth of the month, although earlier or later dates can be negotiated) for both scheduled and unscheduled payments.

RD

Rural Development

Real Estate Mortgage Investment Conduit (REMIC)

A type of multi-class mortgage-related security in which interest and principal payments from mortgages or mortgage-related securities are structured into separately traded securities.

real estate owned (REO)

Other real estate owned by the borrower (such as an investment property).

reciprocal easement

The right of unit owners in different phases of an overall condo development to use the roads, parking areas, etc., in other phases of the development, through the creation of cross-easements.

recognition agreement

An agreement on the part of a co-op corporation to recognize specific rights of lenders who finance share loans in the project (or those of the lenders' successors and assigns).

recourse

The obligation of the lender to cover losses the buyer incurs as a result of a default on the note. Under a whole loan transaction, a lender that sells a mortgage to Fannie Mae under the "with recourse" servicing option assumes the entire risk of borrower default, while a lender that sells a mortgage under the "without recourse" servicing option transfers the risk of borrower default to Fannie Mae. (See *regular servicing option* and *special servicing option* for equivalent terms for MBS transactions.)

refinance transaction

The repayment of a debt from the proceeds of a new loan using the same property as security. Fannie Mae also considers the current owner's placement of financing on a property that is not financed as a refinance transaction.

regular servicing option

A guaranty fee option for an MBS pool under which the lender assumes the entire risk of loss from a borrower default; a servicing option for RD-guaranteed mortgages under which the servicer is fully responsible for any losses not recovered from RD. (See *recourse* for the equivalent term for a whole loan delivery.)

regularly amortizing mortgage

A collective term that Fannie Mae uses to differentiate "forward" mortgages from reverse mortgages. Mortgages that fall into this category include fully amortizing mortgages.

rehabilitation mortgage

A mortgage created to cover the costs of repairing, improving, and sometimes acquiring an existing property.

relative

The borrower's spouse, child, or other dependent or any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship.

relocation loan

An owner-occupied purchase money loan, originated pursuant to an established employee relocation program, administered by the employer (or its agent), where the employer relocates employees as part of its normal course of business.

remaining term

Original term less the number of payments that have been applied.

REMIC

Real Estate Mortgage Investment Conduit

remittance cycle

A schedule for determining when funds must be remitted to Fannie Mae each month. Portfolio mortgages generally have only a single remittance cycle (regardless of the remittance type), but MBS mortgages have three different remittance cycles (standard, RPM, or MBS Express).

remittance type

A way of determining the composition of the servicer's required remittance to Fannie Mae. For portfolio mortgages, there are three types—Actual/Actual, Scheduled/Actual, and Scheduled/Scheduled.

REO

real estate owned

replacement reserve fund

A dedicated fund set aside for the repair and replacement of common property in a condo, co-op, or PUD project.

repurchase date

The date through which interest must be calculated when a lender is required to repurchase a mortgage or an acquired property from Fannie Mae; the date on which the lender redelivers mortgages funded in certain early funding transactions to Fannie Mae for whole loan purchase or for securitization under an As Soon As Pooled Sale transaction.

required yield

Fannie Mae's posted commitment yield plus all applicable adjustments. This yield does not include a servicing fee.

residential mortgage credit report

A detailed account of the credit, employment, and residence history (as well as public records information) of an individual.

responsible party

A seller, servicer, or other entity that is responsible for the selling representations and warranties and/or for the servicing responsibilities or liabilities on a mortgage loan.

retail origination

A mortgage loan for which the mortgage loan seller takes the mortgage loan application and then processes, underwrites, funds, and delivers the mortgage loan to Fannie Mae. The loan is closed in the name of the mortgage loan seller, which may or may not service the loan. This definition may include joint ventures between the mortgage loan seller and another entity, provided that the mortgage loan seller retains control of the joint venture (either through majority ownership or voting rights).

revocable trust (or living trust)

A trust that an individual creates during their lifetime that becomes effective during their lifetime, but which can be changed or canceled at any time for any reason during its creator's lifetime.

revolving debt

An arrangement for credit in which the customer receives purchases or services on an ongoing basis prior to payment. Repayment is usually at regular intervals but not for a specified amount or term. Example: charge cards.

RHS

Rural Housing Service

right of first refusal

A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before they offer it for sale or lease to others.

right of ingress or egress

The right to enter upon or leave from designated premises.

RIN

remote ink-signed notarization

RPM

rapid payment method

Rural Development (RD)

A government agency within the U.S. Department of Agriculture (USDA) that makes direct loans and guarantees mortgages secured by residential properties located in rural areas, concentrating on borrowers who meet income eligibility requirements. Formerly the Rural Housing Service (RHS).

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sales comparison approach to value (or market data approach)

A method of measuring the value of a property based on an analysis of comparable sales, contract offerings, and listings of properties that are the most comparable to the property that is being appraised.

sales contract

A contract for the purchase/sale, exchange, or other conveyance of real estate between parties. The contract must be in writing, contain the full names of the buyer(s) and seller(s), identify the property address or legal description, identify the sales price, and include signatures by the parties. Sales contracts are also known as agreements of sale, purchase agreements, or contracts for sale.

same month pooling

An option for creating MBS pools that allows a lender to include in a pool mortgages that close in the same month that the related MBS is issued (which means that they will have their first payment due two months after the MBS issue date).

scheduled/actual remittance type

A method of sending mortgage payments to Fannie Mae requiring lenders to remit the scheduled interest due (whether or not it is collected from borrowers) and the actual principal payments collected from borrowers.

scheduled/scheduled remittance type

A method of sending mortgage payments to Fannie Mae requiring lenders to remit the scheduled interest due and the scheduled principal due (whether or not payments are collected from borrowers).

second mortgage (or subordinate lien mortgage loan)

A mortgage loan that has a lien position subordinate to the first mortgage. Also called subordinate lien mortgage loan.

secondary mortgage market

The financial market in which residential mortgages and mortgage-related securities are bought and sold.

security balance

The balance for an MBS mortgage (or a participation interest in an MBS mortgage) that is determined by reducing Fannie Mae's share of the issue date principal balance of the mortgage by its share of any principal distribution amounts included in subsequent monthly remittances; the balance for an MBS pool that represents the aggregate security balance of all the mortgages (or participation interests) in the pool as of any date, which is equal to the aggregate issue date principal balances of the mortgages (or participation interests) less any subsequent principal distribution amounts.

servicer

A Fannie Mae approved servicer that is contractually obligated to service one or more mortgage loans for Fannie Mae. Also refers to a subservicer if there is a subservicing arrangement.

servicing compensation

The income that a servicer receives for the collection of payments and management of operational procedures related to a mortgage. It includes a base servicing fee, plus late charges, fees charged for special services, yield differential adjustments or excess yield, and, sometimes, prepayment premiums.

servicing fee

The monthly fee, generally expressed in basis points, that a lender retains from borrowers' interest payments as compensation for servicing loans on an investor's behalf.

Servicing Marketplace

The Servicing Marketplace is a committing platform that provides a standardized process for sellers and servicers who engage in concurrent servicing transfer transactions.

servicing spread

The fixed percentage amount for each mortgage or participation interest in a weighted-average ARM MBS pool that consists of the guaranty fee and the servicing fee. It cannot be less than the sum of the minimum allowable servicing fee and the guaranty fee applicable to the pool, nor greater than the sum of the maximum allowable servicing fee and the guaranty fee.

settlement date

The date that the sale of an MBS is settled and funds are paid or transferred. It may be the same day that the securities are issued to the designated book-entry account.

settlement statement

A form required by federal law that provides disclosures to borrower(s) of the final loan terms and costs of the mortgage loan transaction. References to “settlement statement” include the HUD-1 Settlement Statement and Closing Disclosure forms, as applicable, based on the application date of the mortgage loan.

SFC

special feature code

SFHA

Special Flood Hazard Area

shared appreciation

A program that creates affordability by providing down payment and/or closing cost assistance to the borrower in exchange for repayment of a loan and a share in any future appreciation of the property.

shared equity

A program, also referred to as a "below-market program," that supports long-term affordability by offering a subsidized sales price in exchange for restrictions on the future sale of the home, including limitations on both income eligibility and sales price. See also *Income and Resale Price Restrictions*.

SIFMA

Securities Industry and Financial Markets Association

significant defect

One or more defects that either necessitate a change to the price on which the loan was acquired or result in the loan being unacceptable for purchase had the true and accurate information about the loan been known at time of purchase. In determining whether there is a significant defect, Fannie Mae must give due consideration to the severity of the defect. The defect must also meet certain criteria established in this Guide.

significant interest rate buydown

A temporary reduction in the initial interest rate of a mortgage loan that provides for either more than a 2% difference between the actual interest rate as stated in the note and the “bought-down” interest rate, or a buydown period greater than two years. Fannie Mae restricts the percentage of an MBS pool that can be comprised of mortgages with this type of buydown. Requires SFC 014 at delivery.

single entity owner

The same individual, investor group (e.g., developer, sponsor, builder), partnership, or corporation that owns multiple units in a condo or co-op project. In its examination for project eligibility, the lender must determine compliance with Fannie Mae’s single entity ownership requirements.

single pool

An MBS pool that consists of mortgages or participation interests delivered by a single lender.

single-family mortgage loan

A mortgage loan secured by a property that contains one to four residential dwelling units.

single-width manufactured home

A single section manufactured home constructed in the factory and shipped intact to the site. The home is permanently affixed to the land and is legally classified as real property.

SMBS

stripped mortgage-backed security

SOFR

Secured Overnight Financing Rate

special assessment districts (or municipal utility districts)

Jurisdictions that have been granted the authority to assess owners of properties within their boundaries for funds that will be used to cover the operating costs and debt service they incur for providing water or other utilities for the area (since it is not served by existing city or municipal utility services).

special deposit account

An account that is established for renovation mortgages to hold the funds needed for the renovation work so they can be disbursed from time to time as particular portions of the work are completed.

special feature codes (SFC)

Codes that Fannie Mae uses to identify certain characteristics related to individual mortgage loans, mortgage products, or negotiated transactions. A lender must specify these codes when they apply to mortgages delivered to Fannie Mae.

Special Flood Hazard Area (SFHA)

The land in the flood plain within a community having at least a 1% chance of flooding in any given year, as designated by FEMA.

special lender obligations

Special requirements or undertakings that a lender agrees to honor in connection with the purchase or securitization of mortgages—such as credit support obligations; repurchase obligations; and recourse, loss-sharing, or indemnity obligations.

special requirement

A negotiated agreement for the delivery of certain special mortgage loan products or other mortgage loans that were originated with terms that are at variance with standard Fannie Mae pricing and operational requirements.

special servicing option

A guaranty fee option for an MBS pool under which Fannie Mae assumes the entire risk of loss from a borrower default; a servicing option for RD-guaranteed mortgages under which Fannie Mae will bear all losses not recovered from the RD. (See *recourse* for the equivalent term for a whole loan delivery.)

SSA

Social Security Administration

standard pricing option

A pricing method under which all mortgages delivered under a single commitment will be priced based on the relationship of their specific pass-through rate to the commitment's single required yield. Standard pricing can result in either a par price or a discount price, but not a premium price.

standard remittance cycle

A payment cycle used for scheduled/scheduled remittance types for MBS pools that requires the scheduled and unscheduled payments to be remitted to Fannie Mae on the 18th calendar day of each month (or on the preceding business day if the 18th is not a business day).

state

Any state, the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States.

stated-structure pooling

A method of creating an ARM MBS pool that results in interest accruals to the security holder at the stated pool accrual rate.

structured transactions

Multi-class or multi-tranche Fannie Mae securities and/or single-class Fannie Mae MBS that are resecuritizations of other single-class Fannie Mae MBS.

subdivision

A housing development that is created by dividing a tract of land into individual lots for sale or lease.

subordinate financing

Any mortgage or other lien that has priority lower than that of the first mortgage.

subordinate lien mortgage loan

See *second mortgage*.

subservicer

A Fannie Mae approved servicer that is contractually obligated to a master servicer to perform substantially all of the ongoing servicing activities for one or more mortgage loans for the master servicer.

subservicing arrangement

An arrangement wherein the master servicer of one or more Fannie Mae mortgage loans hires a subservicer to subservice substantially all of its subservicing functions.

swing loan

See *bridge loan*.

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T&I

taxes and insurance

take-out option

A post-conversion disposition option that requires the lender to redeliver as a whole loan a repurchased convertible adjustable-rate mortgage that was in an MBS pool following its conversion to a fixed-rate mortgage and to continue any recourse or credit enhancement that initially applied to the mortgage (unless Fannie Mae agrees it is no longer needed).

TBA

to be announced

temporary interest-rate buydown

A temporary reduction in the effective interest rate that a borrower pays during the early years of a mortgage term, which is made possible by the property seller or another acceptable party depositing a lump sum of money into a buydown account so that it can be released each month to reduce the borrower's payments.

tenant-stockholder

The obligee for a co-op share loan, who is both a stockholder in the co-op corporation and a tenant of the unit under a proprietary lease or occupancy agreement.

Texas Section 50(a)(6) loan

A loan originated in accordance with and secured by a lien permitted under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allows a borrower to take equity out of a homestead property under certain conditions. Article XVI, Section 50(a)(6), of the Texas Constitution is sometimes referred to as Texas Constitution Section 50(a)(6).

TILA

Truth in Lending Act

timeshare project

A real estate development in which a purchaser can buy the exclusive right to occupy a unit for a specified period of time each year.

title insurance

Insurance against loss resulting from defects in the title to real property.

trade equity

Equity that results from a property purchaser giving their existing real property as trade as all or part of the down payment for the property that is being purchased.

traditional appraisal

An appraisal assignment where the appraiser collects the property data and completes the market analysis required for the appraisal.

transfer of ownership

Any means by which the ownership of property changes hands. Fannie Mae considers the transfer of all or any part of the property or any interest in the property to be a transfer of ownership, including: the purchase of a property "subject to" the mortgage, the assumption of the mortgage debt by the property purchaser, and any exchange of possession of the property under a land sales contract, grant deed, or any other land trust device. In cases in which an revocable trust is the borrower, Fannie Mae also considers any transfer of a beneficial interest in the trust to be a transfer of ownership.

Treasury index

An index that is used to determine interest rate changes for certain ARM plans. It is based on the results of auctions that the U.S. Treasury holds for its Treasury bills and securities or is derived from the U.S. Treasury's daily yield curve, which is based on the closing market bid yields and actively traded Treasury securities in the over-the-counter market.

two- to four-unit condo project

A project comprised of two to four residential units in which each unit is separately owned. A two- to four-unit project may be either a new or established project and may be comprised of attached and/or detached units.

two- to four-unit property

A property that consists of a structure that provides living space (dwelling units) for two to four families, although ownership of the structure is evidenced by a single deed.

E-3-21, Acronyms and Glossary of Defined Terms: U (05/01/2019)

UCC

Uniform Commercial Code

UETA

Uniform Electronic Transactions Act

underwriting documents

All of the documentation used to support the lending decision for a mortgage—such as the loan application and other documents used to verify a borrower's employment, income, deposits, and credit history.

Uniform Commercial Code (UCC)

A comprehensive codification and modernization of commercial law (but excluding law dealing with real property).

Uniform Electronic Transactions Act (UETA)

Any of several state adoptions of an Act that has provisions for the use of electronic signatures and records in interstate commerce that are virtually identical in all material respects to similar provisions of ESIGN.

Uniform Mortgage-Backed Security (UMBS)

A common security issued by the GSEs that is eligible for trading in the To-be-Announced (TBA) market. The securities are backed by fixed-rate loans secured by single-family one-to-four unit properties and are identified by certain pool prefixes.

unit mortgage

A mortgage (or share loan) on an individual residential unit in a planned unit development, condo, or co-op project.

unpaid principal balance (UPB)

The actual balance of the mortgage as of the last paid installment date (also referred to as the “outstanding principal balance”).

UPB

unpaid principal balance

USPAP

Uniform Standards of Professional Appraisal Practice

E-3-22, Acronyms and Glossary of Defined Terms: V (03/01/2023)

VA

U.S. Department of Veterans Affairs

VA-guaranteed mortgage

A mortgage that is guaranteed by the U.S. Department of Veterans Affairs; may be referred to as a “government” mortgage.

value acceptance (appraisal waiver)

An optional offer to sell the loan without an appraisal for certain loan casefiles underwritten in DU. It is based on data and modeling framework that confirms the validity of the value/sale price. Formerly known as a property inspection waiver or property fieldwork waiver.

value acceptance + property data

Similar to value acceptance, this is an optional offer to sell the loan without an appraisal but is contingent on the lender delivering property data collected by a trained and vetted third party (real estate agent, insurance inspector, appraiser, etc.)

variance

A negotiated agreement for the delivery of certain special mortgage products or other mortgage loans that were originated with terms that are at variance with standard Fannie Mae eligibility, underwriting, or other origination criteria or requirements.

voluntary conveyance

See *deed in lieu of foreclosure*.

E-3-23, Acronyms and Glossary of Defined Terms: W (11/10/2019)

weighted-average pool accrual rate

The weighted average of the net mortgage interest rates of the mortgages in a weighted-average ARM MBS pool, which is the rate at which interest will accrue on the MBS.

weighted-average structure pooling

A method of creating an ARM MBS pool that results in interest accruals to the security holder at the weighted average of the accrual rates of the mortgages in the pool.

whole loan delivery

The submission of a whole mortgage or a participation pool mortgage to Fannie Mae for purchase as a portfolio mortgage. Fannie Mae pays the mortgage seller cash for its mortgage delivery, rather than swapping the mortgage for a mortgage-backed security.

E-3-24, Acronyms and Glossary of Defined Terms: X (04/01/2009)

No applicable terms.

E-3-25, Acronyms and Glossary of Defined Terms: Y (05/30/2017)

yield

Return on an investment.

yield difference (or interest rate differential)

The difference between Fannie Mae’s required yield and the net note rate of an ARM. Fannie Mae limits the amount of this difference.

yield differential adjustment

An amount paid to the servicer of a whole first mortgage when the initial interest rate of a mortgage exceeds Fannie Mae’s required yield for the commitment under which the mortgage was purchased.

E-3-26, Acronyms and Glossary of Defined Terms: Z (04/01/2009)

No applicable terms.