

FAQ: Top Trending Selling FAQs

Get answers to frequently asked questions, updated quarterly

These are the top trending underwriting and eligibility questions customers have asked us. Visit Ask Poli® to see trending content, find more answers, filter content by topic, and view recently added questions.

FAQs updated December 7, 2023

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Asset Assessment

Q1. How is a rent back credit treated for qualifying purposes?

A rent back credit may appear on the Closing Disclosure as a credit to the borrower. In all cases, the lender must underwrite the loan without any consideration of the rent back credit and must document the borrower has sufficient funds for the transaction from eligible sources.

Q2. What are the maximum interested party contributions 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%

1. See [B5-4.2-03, Loans Secured by HomePath Properties](#) (05/31/2016) for an exception to this limit for principal residence transactions. For additional information, see [B3-4.1-02, Interested Party Contributions \(IPCs\)](#).

Eligibility Assessment

- Q1.

Can the sales contract include a rent back agreement in a purchase money transaction?

The sales contract may include a rent back agreement in a purchase money transaction, however, if the loan is owner-occupied, the borrower must occupy the property within 60 days of closing as noted in the security instrument. See related Top Trending FAQ: How is a rent back credit treated for qualifying purposes?
- Q2.

What are the eligibility requirements for non-U.S. citizen borrowers?

We have a longstanding policy on eligibility for non-U.S. citizen borrowers. Fannie Mae purchases and securitizes mortgages to non-citizens who are lawful permanent or non-permanent residents of the United States under the same terms available to U.S. citizens. This [Fact Sheet](#) provides additional guidance to help lenders determine eligibility for non-U.S. citizen borrowers.
- Q3.

Where can I find the Eligibility Matrix?

The [Eligibility Matrix](#) provides the comprehensive LTV, CLTV, and HCLTV ratio requirements for conventional first mortgage loans eligible for delivery to Fannie Mae. The *Eligibility Matrix* also includes credit score, minimum reserve requirements (in months), and maximum debt-to-income ratio requirements for manually underwritten loans. Other eligibility criteria that are not covered in the *Eligibility Matrix* may be applicable for loans to be eligible for delivery to Fannie Mae, e.g., allowable ARM plans. See the *Selling Guide* for details.

Income Assessment

- Q1.

What is required for retirement income paid in the form of a distribution?

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.

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.

For additional information, see [B3-3.1-09, Other Sources of Income](#).
- Q2.

What is required for 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 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*, in [B3-3.1-09, Other Sources of Income](#).

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 in [B3-3.1-09, Other Sources of Income](#).
- Q3.

What is required to verify trust income?

For trust income verification requirements with fixed or variable payments, see [B3-3.1-09, Other Sources of Income](#).
- Q4.

When can per diem earnings, expense stipends, and reimbursement for expenses be used as income?

While every effort is made to include requirements for employment that generates income, some sources of income exist that may be variable in nature (such as per diem earnings or expense stipends) and are not specifically addressed in the *Selling Guide*. As a result, the lender must evaluate and document the income in accordance with the policies in [B3-3.1-01, General Income Information](#). The documentation must support the income as stable, predictable and likely to continue.

Reimbursements for expenses (e.g., work-related supplies, travel, meals, and entertainment), are not considered wages as they are provided to the borrower for the purpose of offsetting a specific expense incurred while performing a service for the employer. When income is provided for discretionary use, not for the purpose of offsetting a specific expense, the lender can evaluate the income according to [B3-3.1-01, General Income Information](#).
- Q5.

What updates were recently made to the rental income policies?

We updated our policies for rental income to address various questions received from lenders. These changes provide additional details for documenting rental income used for qualifying and reconciles differences in the way income earned from subject and non-subject properties is determined.

We aligned the use of rental income that can be considered for qualifying purposes for non-subject rental properties that have become rental properties within the last 12 months (investment properties or two- to four-unit primary residences), with that of rental income earned from the subject property. This requires the borrower to have a primary housing expense and at least a one-year history of property management experience to use the full amount of rental income towards qualifying, otherwise the amount may be limited.

Next, we clarified the treatment of rental income when multiple rental properties are owned to ensure our Guide aligns with Desktop Underwriter® (DU®) functionality. This means that when rental income is considered from multiple rental properties, the income or loss is calculated on a per property basis but then aggregated for non-subject properties so the total amount of either income or loss across all rental properties is considered in the calculation of the borrower's total debt-to income ratio.

Additionally, we amended documentation requirements for lease agreements. Form 1007 or Form 1025 must support the income reflected on the lease agreement or the lease agreement must provide evidence that the terms of the lease have gone into effect with proof of receipt for at least two-month's rental payments.

Finally, we provided supplemental scenarios for documenting partial rental income when the rental property was not in service the previous tax year or was only in service for a portion of the previous tax year. This information should assist lenders with their analysis of using alternative rental income calculations or determining when the use of lease agreements is more appropriate.

Effective: Lenders are encouraged to implement these changes immediately but must do so for all loans with application dates on or after Jan. 1, 2024. For additional information, see [B3-3.1-08, Rental Income](#).

Monthly Debt Obligations

- Q1.

For debts paid by others, if only a portion of the debt is paid by another party, can that portion be excluded in the DTI ratio?

In order for non-mortgage and mortgage debt to be excluded from the debt-to-income (DTI) ratio, the other party cannot be an interested party to the subject transaction and has to pay the complete monthly obligation every month for a minimum of 12 months.

For mortgage debt, the following additional requirements must be met:

 - 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.

All other requirements of *Debts Paid by Others* in [B3-6-05, Monthly Debt Obligations](#) must be met.
- Q2.

For debts paid by others, what if the 12-month payment history shows more than one party has made the payments?

When the debt is being paid by more than one party, lenders need to use prudent underwriting judgment to determine payments are consistently being made in accordance with *Debts Paid by Others*, [B3-6-05, Monthly Debt Obligations](#) in order to exclude the debt from the borrower’s DTI ratio.
- Q3.

What documentation can be used to evidence a business debt was paid out of company funds?

The lender may use discretion in the documentation obtained to support that the business debt is paid out of company funds. An example of acceptable documentation used in the *Selling Guide* is 12 months of canceled company checks. For complete policy requirements, refer to *Business Debt in Borrower's Name* in [B3-6-05, Monthly Debt Obligations](#).
- Q4.

When a debt is being paid by another party can payment histories be combined if there was an interruption in payments due to a refinance or trade-in?

When a debt is paid by another party, it may be excluded from the DTI ratio with a demonstrated history of consistent payments over the most recent 12 months in accordance with the requirements outlined in *Debts Paid by Others*, [B3-6-05, Monthly Debt Obligations](#). If there was an interruption in the payment history due to a loan refinance or trade-in, lenders must exercise their own judgment to determine whether the combined payment histories meet these requirements, including considering whether

 - the documentation provided supports the concurrent transactions (prior account closed and new account open) with the same obligors and payor(s), and
 - the new payment is substantially similar to the previous payment with minimal gap between the two loans.

Project Standards & Condo Project Manager (CPM)

- Q1.

Where can I find Condo Project Manager (CPM) FAQs?

Click [here](#) to find answers to commonly asked questions about Condo Project Manager™ (CPM™).
- Q2.

Where can I find FAQs on Project Standards?

This FAQ document provides responses to common questions related to Fannie Mae’s project review methods and policies for determining project eligibility for mortgages secured by units in condo, co-op, and planned unit development (PUD) projects. Click [here](#) to access the FAQs.

Student Loan Payments

- Q1.

Can a student loan be excluded from the DTI ratio if it was forgiven, canceled, or discharged?

If the debt has been *fully* forgiven, cancelled, or discharged as of the closing date of the mortgage loan, the lender must provide documentation to show the loan was forgiven in full and no payments are owed from the borrower.

If the debt has been *partially* forgiven, cancelled, or discharged as of the closing date of the mortgage loan, the lender must provide documentation confirming the new loan balance and may calculate the monthly payment based on:

 - 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.

If the documentation does not provide the new monthly payment, the lender may calculate the payment.

Please click [here](#) for additional information regarding the Student Debt Relief Plan and its potential impact on borrowers with federal student loan debt.
- Q2.

If a borrower has multiple student loans in deferment or forbearance, should these payments be calculated separately or combined?

For deferred student loans or student 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.

Additionally, if a borrower has more than one student loan, the lender may combine the unpaid principal balances of all student loans to estimate or calculate the total qualifying payment.
- Q3.

If a student loan is in deferment or forbearance, can the payment amount be excluded for qualifying?

No, payments in deferment or forbearance may not be excluded for qualifying. If the student loan is in deferment or forbearance and the credit report payment amount is missing (or \$0), lenders must calculate a qualifying payment by either using 1% of the outstanding student loan balance or a fully amortizing payment using the documented loan repayment terms. Additionally, if the student loan is in deferment or forbearance and the credit report reflects a monthly payment (even if this payment is an estimated payment amount), lenders may use this payment to qualify the borrower. For details on the various repayment options for federal student loans, including definitions of deferment and forbearance, see <https://studentaid.ed.gov/>.

Q4. What is the policy on income-driven repayment plans for student loans?

For student loans associated with an income-driven repayment (IDR) plan, the student loan payment, as listed on the credit report, is the actual payment the borrower is making and that payment should be used in qualifying. Any future increases in the IDR payment will be tied to similar increases in the student's income, mitigating concerns that IDR payments may create payment shock.

For additional information on student loan payments, see [B3-6-05, Monthly Debt Obligations](#).

Value Acceptance (Appraisal Waiver)

Q1. Are rental or investor properties eligible for value acceptance offers?

DU may offer value acceptance on loans secured by rental or investor properties when the rental income is not used to qualify borrowers for the loan. If rental income is used to qualify, the *Single-Family Comparable Rent Schedule* ([Form 1007](#)) is required. Because this form can only be completed in conjunction with an appraisal, DU will not offer value acceptance in those cases.

When rental income is not used to qualify, the lender can provide the alternative income documentation to document the rental income for lender reporting purposes (see [Selling Guide B3-3.1-08, Rental Income](#)). These alternatives do not require an appraisal, so value acceptance may be offered and accepted.

Q2. How does a lender know if value acceptance is offered on a loan casefile?

As part of the risk analysis, DU assesses the reasonableness of the lender's estimated value for the property and recommends the minimum level of collateral due diligence that must be performed for the loan to be delivered to Fannie Mae.

Loan casefiles that are eligible for value acceptance will receive a message indicating the availability of value acceptance. (See message text below.)

Note: For loan casefiles that are not eligible for value acceptance, the fieldwork recommendation message will require an appraisal with an interior and exterior property inspection.

The following message will be displayed in the DU Underwriting Findings report when a loan receives a value acceptance offer:

DU accepts the value submitted by the lender for this subject property. To exercise the value acceptance

(appraisal waiver) offer with representation and warranty relief on the value, condition, and marketability of the subject property, the loan delivery file must include the Casefile ID and Special Feature Code 801. If the value acceptance (appraisal waiver) offer is not exercised, an appraisal is required for this transaction and the loan cannot be sold with Special Feature Code 801. Note that DU does not identify all value acceptance (appraisal waiver) ineligible transactions, including Texas Section 50(a)(6) mortgages; always refer to the Selling Guide to verify eligibility.

Example: A lender submits a loan casefile to DU and receives a message indicating the availability of a value acceptance offer and the need for an appraisal based on an interior and exterior property inspection if the offer is not exercised. The lender can either (a) obtain the interior and exterior appraisal or (b) exercise value acceptance offer.

Q3. If a lender receives a value acceptance offer on a loan casefile, are there situations in which the lender would still need to obtain an appraisal?

Yes. There may be certain situations in which a lender needs to obtain an appraisal, even though value acceptance was offered on the loan casefile.

Examples of when an appraisal would need to be obtained include the following:

- The loan is a Texas Section 50(a)(6) mortgage. (DU cannot identify Texas Section 50(a)(6) mortgages so it may issue an invalid value acceptance offer).
- The lender has reason to believe that fieldwork is warranted because the sales contract for a purchase transaction stipulates repairs that are not minor, or that may affect the safety, soundness, or structural integrity of the property.
- The lender is required by law to obtain an appraisal.
- The property is a leasehold property.
- The property is in a community land trust or has certain other resale restrictions.
- The mortgage insurance provider requires an appraisal.

When an appraisal is obtained, the value acceptance offer may not be exercised, and the loan cannot be delivered with SFC 801.

Note: The borrower always has the choice to request an appraisal.

Q4. What is required to exercise a value acceptance (appraisal waiver) offer?

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.

For more information, see [B4-1.4-10, Value Acceptance \(Appraisal Waiver\)](#).

Q5. What is the difference between value acceptance versus value acceptance + property data?

Value acceptance + property data is value acceptance with the additional required step of obtaining a property data collection prior to the note date. See *Selling Guide* [B4-1.4-11, Value Acceptance + Property Data](#) for details.

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