

Selling Guide Announcement SEL-2016-03

March 29, 2016

Selling Guide Updates

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

- HomeStyle® Energy Mortgages
- Multiple Financed Properties
- Updates to Texas Section 50(a)(6) Loans
- Co-op Policies
- Flood Insurance Coverage Requirements
- Miscellaneous *Selling Guide* Updates

Each of the updates is described below. The affected topics (and specific paragraphs) are noted for each policy change. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated March 29, 2016.

HomeStyle® Energy Mortgages

To support borrowers in their efforts to increase the energy efficiency and reduce utility costs for their homes, Fannie Mae is announcing the HomeStyle Energy mortgage loan. Borrowers will be able to finance energy-efficient upgrades when purchasing or refinancing a home, eliminating the need for a subordinate lien, home equity line of credit, Property Assessed Clean Energy (PACE) loan, or unsecured loan.

HomeStyle Energy builds upon (and replaces) the current energy improvement features in the *Selling Guide*. It is available for standard purchase and limited cash-out refinance transactions, and also for larger renovation projects that include energy efficiency under the existing HomeStyle Renovation product.

The table below highlights many of the key features of this offering. Refer to the applicable topics in the Guide for additional details.

Policy	HomeStyle Energy
Lender Approval	Open to all Fannie Mae–approved lenders with no special approval required.
Financing Improvements	Up to 15% of “as completed” appraised value.
Pay Off Existing Debt	Limited cash-out refinances may include the payoff of existing financing incurred for prior energy improvements made to the property (such as PACE liens, unsecured loans, or credit card debt).
Basic Weatherization and Water Efficiency (such as programmable thermostats or low-flow water devices)	Up to \$3,500 may be included in the loan amount for purchase and limited cash-out refinances. An energy report is not required.
Energy Reports	One of the following reports is required: <ul style="list-style-type: none"> • Home Energy Rating Systems (HERS) report;

	<ul style="list-style-type: none"> • Department of Energy (DOE) Home Energy Score Report; or • a comparable rating report completed by an independent and certified home energy consultant or auditor.
Product Eligibility	<p>May be used in combination with all Guide products and transactions with the exception of DU Refi Plus™ and Refi Plus™.</p> <p>Proceeds from Community Seconds®, Down Payment Assistance programs, and grants can be applied toward energy improvements if permitted under the parameters of the program.</p>
LTV, CLTV, and HCLTV Ratios	The standard LTV, CLTV, and HCLTV ratios apply per the <i>Eligibility Matrix</i> , except for HomeReady® loans, which are limited to 95% LTV ratio.
Occupancy and Property Eligibility	<ul style="list-style-type: none"> • Existing properties (no new construction) and all occupancy types are permitted. • Manufactured housing is not permitted.
Loan-level Price Adjustment Credit	\$500 (with delivery of Special Feature Code 375)
Underwriting Considerations	<ul style="list-style-type: none"> • Can be underwritten manually or with Desktop Underwriter® (DU®). • For manually underwritten loans, the debt-to-income ratio can exceed 36% up to 38% if the DOE Home Energy Score (or comparable industry standard measure) is greater than 6. • Because DU cannot determine if the loan casefile contains energy-related features, DU will not issue any specific messages related to HomeStyle Energy. Lenders must manually apply the requirements. • Lenders may disregard the “ineligible” recommendation from DU that may result if the borrower pays off unsecured loans or credit card debts (for prior energy improvements) that exceed the limited cash-out 2%/\$2000 maximum cash back policy.
Lender Recourse	Loans can be delivered before completion of the work without recourse to the lender.
Completion Escrow Account for Postponed Improvements	Completion escrow accounts are required for incomplete improvements.

Fannie Mae is pleased to offer these flexibilities that support the financing of energy and water efficiency in ways that are cost-effective for borrowers. Additional resources have been published to help lenders implement HomeStyle Energy. Refer to the Fannie Mae’s [website](#) for Frequently Asked Questions, information about training opportunities, and other resources.

Updated Selling Guide Topics

- [B2-1.2-02](#), Limited Cash-Out Refinance Transactions (Eligibility Requirements, Requirements for Limited Cash-Out Refinance Transactions with 95.01 – 97% LTV Ratios, Ineligible Transactions, Acceptable Uses, Documentation Requirements)
- [B3-4.1-03](#), Types of Interested Party Contributions (IPCs) (Down Payment Assistance Programs, Financing Concessions)
- [B3-4.3-06](#), Donations From Entities (Donations From Entities, Minimum Borrower Contribution Requirements)
- [B4-1.2-03](#), Requirements for Postponed Improvements (Requirements for HomeStyle Energy Improvements on Existing Construction)

- [B5-3.2-01](#), HomeStyle Renovation Mortgages (Overview, Delivery and Recourse Requirements)
- [B5-3.3-01](#), HomeStyle Energy for Energy Improvements on Existing Properties (Topic renamed)
- [B5-5.1-02](#), Community Seconds Loan Eligibility (Community Seconds Mortgage Terms/Proceeds, Minimum Borrower Contribution Requirements)

Effective Date

These policy updates are effective immediately.

Multiple Financed Properties

When financing a second home or investment property, Fannie Mae currently limits the number of financed properties to ten that a borrower may own or be obligated on. Additional requirements apply if the borrower has more than four financed properties. Lenders must manually apply eligibility and reserve requirements to both DU loan casefiles and manually underwritten loans.

Fannie Mae is simplifying these policies. The updated policies will provide lenders with an automated DU solution that ensures compliance, while retaining loan-level restrictions to manage risk, where warranted. The changes include:

- a financed property has been redefined as a residential one- to four-unit property with a mortgage for which the borrower is personally obligated;
- the reserve calculation has been redefined for the other financed properties and will now be determined by applying a specific percentage based on the number of financed properties to the aggregate of the outstanding unpaid principal balance (UPB) for all mortgages and HELOCs;
- eligibility restrictions for DU loan casefiles and manually underwritten loans related to LTV, CLTV, and HCLTV and cash-out refinances have been removed, and are now aligned with standard eligibility;
- HomeStyle mortgages are now permitted for these borrowers;
- manual underwriting is no longer permitted for loans where the borrower has more than six financed properties; and
- delivery of SFC 150 is no longer required (applied when the borrower has five to ten financed properties).

DU 10 will

- determine the reserve requirements for the subject property and other financed properties,
- apply a minimum credit score requirement of 720 when the borrower will have more than six financed properties, and
- issue an ineligible recommendation when the borrower will have more than ten financed properties.

The *Eligibility Matrix* has been updated for multiple financed properties, accordingly.

Updated Selling Guide Topics

- [B2-1.2-03](#), Cash-Out Refinance Transactions (Ineligible Transactions, Delayed Financing Exception)
- [B2-2-03](#), Multiple Financed Properties for the Same Borrower
- [B3-4.1-01](#), Minimum Reserve Requirements
- [B5-3.2-02](#), HomeStyle Renovation Mortgages: Loan and Borrower Eligibility
- [B5-4-03](#), Loans Secured by HomePath Properties

Effective Date

These changes will not be implemented in DU 10 until DU Version 10.0 the weekend of June 25, 2016. However, lenders can implement them immediately for DU and manually underwritten loans. Lenders will have to manually apply the minimum credit score and reserves policies as applicable. Lenders must not deliver SFC 150 on loans underwritten to the new policies.

Lenders that do not implement prior to the release of DU Version 10.0 must continue to apply the current policies and deliver SFC 150.

Updates to Texas Section 50(a)(6) Loans

Removal of Special Lender Approval for Selling and Servicing Texas Section 50(a)(6) Loans

A Texas Section 50(a)(6) mortgage is a mortgage originated under the provisions of Section 50(a)(6) of the Texas Constitution, which allows a borrower to take equity out of a homestead property under certain conditions. Fannie Mae's current policy requires that sellers and servicers obtain special approval to sell and/or service these loans.

With this update, Fannie Mae is eliminating the special lender approval requirement. Therefore, unless otherwise notified in writing, all lenders are eligible to sell and/or service Texas Section 50(a)(6) mortgage loans. However, lenders are reminded that they must be able to make the certifications and comply with the requirements contained in the *Selling* and *Servicing Guides* specific to Texas Section 50(a)(6) mortgages, as well as meet the eligibility criteria specified in the Texas Constitution. Any lender that intends to sell Texas Section 50(a)(6) mortgage loans originated by a third-party originator is also responsible for ensuring that the originating lender qualifies as an "authorized lender" under the Texas Constitution.

Because certain cures under the Texas law will result in outcomes that would continue to be considered to be unacceptable to Fannie Mae even after curing the deficiency in accordance with Texas law, the Guide is being updated to clarify that certain outcomes may result in repurchase.

The DU message indicating that Section 50(a)(6) loans may be delivered to Fannie Mae only with specific lender approval will be updated in a future release and may be disregarded until that time. All other provisions contained in the DU message related to Texas Section 50(a)(6) mortgages continue to apply.

Effective Date

This policy change is effective May 1, 2016 for whole loans purchased by or loans included in an MBS Pool with issue dates on or after May 1, 2016.

Power of Attorney for Texas Section 50(a)(6) Loans

Currently, the *Selling Guide* does not permit a power of attorney in connection with a Texas Section 50(a)(6) mortgage loan. Fannie Mae has removed this restriction from the *Selling Guide* and instead will rely on the lenders' standard representations and warranties that the loans were originated in accordance with applicable law.

Lenders are reminded that Fannie Mae's classification of mortgage transactions as "cash-out refinance" or "limited cash-out refinance" may differ from the way mortgages are classified under Texas law for purposes of compliance. The *Selling Guide* continues to not permit a power of attorney to sign the note or security instrument on cash-out refinance transactions.

Effective Date

This policy change is effective immediately.

Updated Selling Guide Topics

- [A1-1-01](#), Application and Approval of Lender (Special Lender Approval and MSSC Addendum)
- [B5-4.1-01](#), Texas Section 50(a)(6) Mortgage Loans
- [B5-4.1-04](#), Texas Section 50(a)(6) Mortgage Loan Delivery and Servicing Considerations
- [B5-5.2-01](#), DU Refi Plus and Refi Plus Eligibility (Texas Section 50(a)(6) Mortgage Loans)
- [B8-5-06](#), Requirements for the Use of a Power of Attorney (Restrictions on the Use of a Power of Attorney)

Co-op Policies

The following updates have been made to the *Selling Guide* with regard to co-op share loan policies:

- The LTV ratio calculation for determining when mortgage insurance is required for a co-op property that is subject to resale restrictions that terminate at foreclosure has been clarified. If the co-op property is subject to such resale restrictions 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) to determine when mortgage insurance is required.
- Two Guide topics contained the same requirement for single entity ownership; however, the requirement was worded differently and resulted in confusion. Therefore, the duplicate requirement has been removed from one topic.

Updated Selling Guide Topics

- [B2-1.1-01](#), Loan-to-Value (LTV) Ratios
- [B4-2.3-02](#), Co-op Project Eligibility (Eligibility Requirements for Co-op Projects)
- [B7-1-01](#), Provision of Mortgage Insurance (LTV Ratio Determination in New York State)

Effective Date

These policy updates are effective immediately.

Project-Related Flood Insurance Coverage Requirements

The lender must ensure that any flood insurance required for the security property is in place. Fannie Mae has reviewed its flood insurance coverage requirements and is providing the following clarifications:

- The current flood insurance requirements state that the contents coverage should equal 100% of the insurable value of all contents including machinery and equipment that are not part of the building, owned in common by association members. Machinery and equipment that are not part of the building are not covered by a Residential Condominium Building Association Policy (RCBAP); therefore, this requirement has been removed.
- The Guide states that the homeowners' association (HOA) must obtain an RCBAP or equivalent private flood insurance coverage for each building in the project that is located in a Special Flood Hazard Area (SFHA). This language has been clarified to state that the lender is only required to verify that the HOA maintains the requisite flood policy for the subject unit's building.
- In addressing planned unit development (PUD) projects, the Guide discusses PUD master policies that cover common element buildings and other common property located in an SFHA. A specific PUD master policy form does not exist, therefore, the reference to it has been deleted.

Updated Selling Guide Topic

- [B7-3-07](#), Flood Insurance Coverage Requirements (Requirements for Project Developments)

Effective Date

These clarifications are effective immediately.

Miscellaneous Selling Guide Updates

- [B7-4-01](#), **Liability Insurance**. The Guide currently requires that the liability insurance policy provide for at least ten days' written notice to the HOA or co-op corporation before the insurer can cancel or substantially modify it. For condo and co-op projects, similar notice also must be given to each holder of a first mortgage or share loan on an individual unit in the project. Fannie Mae has determined that the notification requirement to each holder of a first mortgage or share loan cannot reasonably be met, therefore that requirement has been removed.
- [B7-4-02](#), **Fidelity/Crime Insurance**. The fidelity/crime insurance policy for a condo or co-op project must include a provision that calls for at least ten days' written notice to the HOA, insurance trustee, and servicer of Fannie Mae-owned or –securitized mortgages before the policy can be canceled or substantially modified. The notification requirements to servicers have been removed. In addition, the specific coverage amounts the HOA or co-op corporations' management agents should maintain has been removed.
- [E-1-03](#), **List of Contacts**. The Guide has been updated to reflect the new corporate phone numbers now in use by Fannie Mae.

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

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Chief Credit Officer for Single-Family