



Selling Guide Announcement SEL-2016-04

May 31, 2016

Selling Guide Updates

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

- Modifications of Single-Closing Conversion of Construction-to-Permanent Loans
- DU Version 10.0 Risk Factors and Credit Data Changes
- Lender Self-Report Obligations Related to Compliance with Laws
- Student Loan Repayment Options
- Condominium Project Questionnaires
- 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 May 31, 2016.

Modifications of Single-Closing Conversions of Construction-to-Permanent Loans

In response to lender questions, we are clarifying our requirements related to single-closing construction-to-permanent loan modifications. The following loan terms are eligible for modification at the time of conversion to permanent financing:

- interest rate,
- loan term,
- amortization type (from adjustable-rate to fixed-rate only), and
- loan amount.

Modification of some loan terms, such as reduction in the interest rate, will not require re-underwriting while modification of other terms may. Modification of any other loan terms (not listed above) will require a two-closing construction-to-permanent transaction. Obtaining updated credit or appraisal documentation may also be required in certain specific situations.

The Guide has also been updated to specify the legal documentation that must be used for the original construction loan as well as the modification.

Updated *Selling Guide* Topics

- [B3-2-01](#), General Information on DU
- [B5-3.1-02](#), Conversion of Construction-to-Permanent Financing: Single-Closing Transactions

Effective Date

These policy updates are effective for whole loans purchased, or mortgage loans delivered into MBS with pool issue dates, on and after October 1, 2016.



DU Version 10.0 Risk Factors and Credit Data Changes

Desktop Underwriter® (DU®) Version 10.0 will include an update to the DU credit risk assessment. The *Selling Guide* has been updated to reflect the changes to the risk factors described in Appendix A of the [DU Version 10.0 Release Notes](#), including:

- delinquent accounts;
- mortgage accounts;
- revolving credit utilization;
- public records, foreclosures, and collection accounts;
- inquiries;
- loan purpose;
- occupancy type; and
- self-employment.

Trended Credit Data

DU Version 10.0 will use certain trended credit data in the credit risk assessment. Trended credit data is expanded information on a borrower's credit history at a tradeline level on several factors, including amount owed, minimum payment, and actual payment amount that a borrower made on the account. Trended credit data is considered in the "revolving credit utilization" factor listed above.

NOTE: Lenders are not required to analyze trended credit data in the credit report for DU or manually underwritten loans. Furthermore, trended credit data is not required in credit reports that are obtained for reverification purposes during the quality control process.

Significant Derogatory Credit

The *Guide* has been updated to reflect changes to the DU messages issued when a significant derogatory credit event is found in the credit report. Mortgages with significant derogatory credit events will be identified as either a foreclosure, a deed-in-lieu of foreclosure, or a preforeclosure sale. (Prior to DU Version 10, DU may have identified these types of mortgage events in multiple ways, for example, as both a foreclosure and a deed-in-lieu).

Updated *Selling Guide* Topics

- [B3-2-02](#), Risk Factors Evaluated by DU
- [B3-5.2-01](#), Requirements for Credit Reports
- [B3-5.3-05](#), Credit Utilization
- [D1-3-02](#), Lender Post-Closing Quality Control Review of Approval Conditions, Underwriting Decisions, and Documentation

Effective Date

These policy updates will be effective with the release of DU Version 10.0 the weekend of June 25, 2016.

Lender Self-Report Obligations Related to Compliance with Laws

In *Selling Guide* Announcement SEL-2016-02, we updated a specific self-reporting obligation related to lenders' compliance with laws and regulations. The requirements included loan volume parameters for determining when self-reporting is required. In this update to the *Guide*, we have clarified how the lender must determine the loan volume parameters to make it easier to apply.

Note About Reporting TRID Violations



The requirements in *Selling Guide* A3-2-01, Compliance with Laws, are applicable to the TILA-RESPA Integrated Disclosure (TRID) regulations. However, in Lender Letter LL-2015-06, *Information Related to Know Before You Owe TILA-RESPA Integrated Disclosures*, we provided guidance regarding TRID-related quality control and remedy practices. In light of that guidance, the following is a clarification of our expectations for lender self-reporting of possible TRID violations.

Lenders are not obligated to self-report any matters related to possible TRID non-compliance, regardless of the number of loans involved, except in two limited circumstances where a repurchase demand is an authorized remedy under LL-2015-06. These two circumstances are

- if the required form was not used; or
- if a particular practice would impair enforcement of the note or mortgage or would result in assignee liability, and a court of law, regulator, or other authoritative body has determined that such practice violates TRID.

As indicated in LL-2015-06, before we begin conducting routine post-purchase file reviews and exercising contractual remedies for technical noncompliance with TRID, we will provide advance notice to lenders regarding their self-reporting responsibilities.

Updated *Selling Guide* Topics

- [A3-2-01](#), Compliance with Laws

Effective Date

Lenders are encouraged to implement all of the self-reporting requirements immediately, but must do so on or before October 1, 2016. This includes the requirements in Announcement SEL-2016-02 and the updates described above.

Student Loan Repayment Options

In response to questions from lenders, we are clarifying that the lender has the option to calculate a fully amortizing student loan payment when qualifying the borrower. This option is in addition to using the actual fully amortizing payment, or a payment based on 1% of the outstanding balance of the loan(s).

Instructions for calculating the payment have been added to the Guide.

Updated *Selling Guide* Topics

- [B3-6-05](#), Monthly Debt Obligations
- [E-1-03](#), List of Contacts

Effective Date

This policy update is effective immediately.

Condominium Project Questionnaires

As noted in the [UMDP Announcement](#) of March 29, 2016, Fannie Mae and Freddie Mac developed standardized Condominium Project Questionnaire forms. These forms will help lenders collect information needed to determine eligibility for mortgage loans secured by units in condo projects. Note that for some projects, lenders may need to obtain additional information to fully assess whether the project meets our existing project requirements. We have not changed any of our requirements as a result of the new forms.



Use of the forms is optional at this time but lenders are encouraged to begin using and retaining them in the project review file. These forms should help streamline the evaluation of condo projects and create greater consistency and efficiency in the industry.

The forms are now available on our website in both interactive (fillable) and non-interactive PDF versions. Direct links to the interactive forms are below:

- [Condominium Project Questionnaire—Full Form \(Form 1076\)](#)
- [Condominium Project Questionnaire—Short Form \(Form 1077\)](#)

NOTE: *Some Internet browser versions and settings require adjustments to open interactive PDFs.*

Updated *Selling Guide* Topics

- [B4-2.1-01](#), General Information on Project Standards
- [B4-2.2-06](#), Project Eligibility Review Service (PERS)

Miscellaneous *Selling Guide* Updates

- [B3-3.1-09](#), **Other Sources of Income.** Additional clarification on using a Social Security Award letter to verify the borrower's Social Security income has been added to the *Selling Guide*. A recently issued Award letter may be used to verify the income if the letter confirms that the Social Security payments will begin on or before the first payment date of the subject mortgage.
- [B5-4-03](#), **Loans Secured by HomePath Properties.** In light of the policy change made earlier this year to our multiple financed property policy, an outdated reference to the policy was removed from this topic.
- [B5-3.3-01](#), **HomeStyle Energy for Energy Improvements on Existing Properties.** A reference to HomeReady loans was removed to clarify that the maximum LTV ratio on any HomeStyle Energy loan is 95% (not just HomeReady).
- [E-1-03](#), **List of Contacts.** The phone numbers for our regional offices have been updated to show that 800-2FANNIE is now fully operational.
- [E-3-06](#), **Glossary of Fannie Mae Terms: F.** The definition of "Fannie Mae losses" in the Glossary now matches the definition in A2-1-03, Indemnification for Losses, that was updated on February 23, 2016.

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

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