



Selling Guide Announcement SEL-2017-04

April 25, 2017

Selling Guide Updates

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

- Student Loan Solutions
- Project Eligibility Review Waiver for Fannie Mae to Fannie Mae Limited Cash-Out Refinances
- Properties Listed for Sale in the Previous Six Months
- PERS Expiration Dates
- Truncated Asset Account Numbers
- Flash Settlement for Mortgage-Backed Securities
- Servicing Execution Tool Bifurcation Option Terms and Conditions
- Miscellaneous *Selling Guide* Update

Each of the updates is described below. The affected topics for each policy change are listed on the Attachment. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated April 25, 2017.

Student Loan Solutions

Student Loan Payment Calculation

We are simplifying the options available to calculate the monthly payment amount for student loans. The resulting policy will be easier for lenders to apply, and may result in a lower qualifying payment for borrowers with student loans. If a payment amount is provided on the credit report, that amount can be used for qualifying purposes. If the credit report does not identify a payment amount (or reflects \$0), the lender can use either 1% of the outstanding student loan balance, or a calculated payment that will fully amortize the loan based on the documented loan repayment terms.

The current Desktop Underwriter® (DU®) message issued when an installment debt on the loan application does not include a monthly payment will be updated in a future release to reflect this new policy. Until then, lenders may disregard the statement in the message specifying the previous policy and follow the requirements in the *Selling Guide*.

Effective Date

This policy change is effective immediately.

Debts Paid by Others

We are simplifying our requirements for excluding non-mortgage debts from the debt-to-income ratio. Non-mortgage debts include debt such as installment loans, student loans, and other monthly debts as defined in the Guide.

If the lender obtains documentation that a non-mortgage debt has been satisfactorily paid by another party for the past 12 months, then the debt can be excluded from the debt-to-income ratio. This policy applies regardless of whether the other party is obligated on the debt.

NOTE: *This policy does not apply if the other party is an interested party to the subject transaction (such as the seller or realtor).*



Effective Date

Lenders may implement this flexibility immediately. The DU message on omitted debts will require documentation to support the omission of the debt, but will not reference the documentation requirements specified above as DU is not able to identify if the debt was omitted as a result of this policy.

Student Loan Cash-out Refinance

With this update, we are introducing the student loan cash-out refinance feature, a cost-effective alternative to use existing home equity to pay off student loan debt. This feature provides the opportunity for borrowers to payoff one or more student loans through the refinance transaction, potentially reducing their monthly debt payments. The loan-level price adjustment that applies to cash-out refinance transactions will be waived when all requirements have been met.

The student loan cash-out refinance feature contains elements of both a cash-out refinance and a limited cash-out refinance transaction as described in the table below.

| Student Loan Cash-out Refinance Features | | |
|--|---|--|
| Student Loans Eligible for Payoff | <ul style="list-style-type: none"> At least one student loan must be paid off. Loan proceeds must be paid directly to the student loan servicer at closing. Only student loans for which the borrower is personally obligated can be paid through the transaction. Student loan debt must be paid in full with the proceeds – partial payments of student loan debt are not permitted. | New policy |
| Eligibility | The standard cash-out refinance LTV, CLTV, and HCLTV ratios apply per the <i>Eligibility Matrix</i> | Aligns with cash-out refinance |
| Underwriting Method | DU only | New policy |
| Maximum Cash Back | Lesser of 2% or \$2k (over and above the student loan payoff) | Aligns with limited cash-out refinance |
| Mortgage Payoff | 1 st mortgage and purchase-money seconds | Aligns with limited cash-out refinance |
| Other Requirements | <ul style="list-style-type: none"> Property cannot be listed for sale at time of disbursement Payoff of taxes ineligible unless escrow account is established Payoff of delinquent taxes ineligible | Aligns with limited cash-out refinance |

Lenders must deliver the following Special Feature Code (SFC) 841, Student Loan Cash-Out Refinance, at the time of delivery.

NOTE: *The Eligibility Matrix, Special Feature Codes, and Loan-Level Price Adjustment Matrix will be updated to reflect the applicable changes.*

Effective Date

This policy is effective immediately. DU is not currently able to identify these transactions or issue specific messaging so lenders must confirm the loan meets all the requirements to include SFC 841 at time of delivery.

Project Eligibility Review Waiver for Fannie Mae to Fannie Mae Limited Cash-Out Refinances

In response to lender feedback and our commitment to developing solutions that increase lender efficiency while effectively managing risk, we are waiving the project eligibility review for certain Fannie Mae-owned loans that are being refinanced as a limited cash-out refinance. The lender must confirm the following:



- the loan-to-value ratio is no higher than 80% (CLTV or HCLTV ratios may be higher);
- the project has the required project-related property and flood insurance coverage; and
- the project is not a condo hotel or motel, houseboat project, or a timeshare or segmented ownership project.

NOTE: *This waiver does not apply to co-op projects.*

The loan must be delivered with Project Type Code “V” and any applicable SFCs that apply.

Effective Date

Lenders may implement this policy change immediately. The DU message regarding project review requirements will be modified in a future release. Until that time, lenders may disregard the project review message and comply with the updated *Selling Guide* requirements.

Properties Listed for Sale in the Previous Six Months

The current policy on cash-out refinances has been updated to eliminate the additional eligibility restrictions that apply when a property has been listed for sale in the previous six months. With this update, properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan.

Effective Date

The policy change is effective immediately.

PERS Expiration Dates

The Project Eligibility Review Service (PERS) is a review method lenders can use to submit new, newly converted, and established projects to Fannie Mae to determine eligibility. Currently, the final project approval expires no later than 18 months from the date of issuance. We are updating the Guide to allow for a longer expiration term for PERS Final Project Approvals (at our discretion). As a result, we are pleased to announce that Final Project Approvals for Streamlined PERS submissions will be issued for up to 24 months.

Effective Date

This policy change is effective immediately.

Truncated Asset Account Numbers

We are updating our policy to permit truncated account numbers that display at least the last four digits of the borrower’s asset account. This change will help provide a greater degree of protection of borrowers’ non-public information.

Truncated or masked account numbers for bank and portfolio or investment accounts where at least the last four digits are displayed are permissible on the loan application, in DU, and on asset documentation, including verification reports obtained through the DU validation service.

Effective Date

This policy change is effective immediately.

Flash Settlement for Mortgage-Backed Securities

By using Fannie Mae’s Flash MBS®, a lender receives book-entry delivery on Fannie Mae MBS – including Fannie Majors® – as soon as 72 hours after Fannie Mae receives a Loan Delivery submission. Using Flash MBS gives the lender up to two more business days for pooling than the standard pool processing option. The cost is a one-time, one basis



point (\$100 per \$1 million) processing fee. With this update, we are eliminating this processing fee and instead offer Flash MBS as an acceptable standard no cost delivery option, which may reduce selling costs and provide lenders with increased flexibility for same-month pooling. No separate contract or special forms are needed - simply indicate the desired book-entry delivery date in Loan Delivery. For more information, refer to the pool settlement calendar, which includes eligible Flash MBS dates, on the [Pricing & Execution](#) page on Fannie Mae's website.

Effective Date

This update is effective with Flash MBS deliveries made on or after the date of this Announcement.

Servicing Execution Tool Bifurcation Option Terms and Conditions

In order to provide additional flexibility for lenders to take advantage of selling loans through the Servicing Execution Tool (SET) Bifurcation option, we are removing the requirement that SET Bifurcation loans be underwritten in DU and receive an Approve/Eligible recommendation. Going forward, we will permit SET Bifurcation loans without regard to the underwriting method. As a reminder, specific lender approval is required to participate in the SET Bifurcation option.

Effective Date

The policy change is effective immediately.

Miscellaneous *Selling Guide* Update

The name of the Capital Markets Sales Desk has changed to Capital Markets Pricing and Sales Desk. The name has been updated throughout the *Selling Guide*.

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

Carlos T. Perez
Senior Vice President and
Chief Credit Officer for Single-Family



Attachment

| Section of the Announcement | Updated <i>Selling Guide</i> Topics |
|--|--|
| Student Loan Solutions | <ul style="list-style-type: none"> ▪ B3-6-05, Monthly Debt Obligations ▪ B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers on the Subject Transaction ▪ B2-1.2-03, Cash-out Refinance Transactions |
| Project Eligibility Review Waiver for Fannie Mae to Fannie Mae Limited Cash-Out Refinances | <ul style="list-style-type: none"> ▪ B4-2.1-01, General Information on Project Standards ▪ B4-2.2-04, Geographic-Specific Condo Project Considerations ▪ B4-2.2-05, Requirements for Review of Site Condos ▪ B4-2.2-07, Project Eligibility Review Service (PERS) ▪ B4-2.2-08, Additional Requirements for Review of Condo, Co-op, and PUD Projects Comprised of Manufactured Homes |
| Properties Listed for Sale in the Previous Six Months | <ul style="list-style-type: none"> ▪ B2-1.2-03, Cash-out Refinance Transactions |
| PERS Expiration Dates | <ul style="list-style-type: none"> ▪ B4-2.2-07, Project Eligibility Review Service (PERS) |
| Truncated Account Numbers | <ul style="list-style-type: none"> ▪ B3-4.2-01, Verification of Deposits and Assets |
| Flash Settlement for Mortgage-Backed Securities | <ul style="list-style-type: none"> ▪ C3-6-01, Parameters for Pooling Loans Into Fannie Majors ▪ C3-7-06, Settling the Trade ▪ E-3-06, Glossary of Fannie Mae Terms: F |
| Servicing Execution Tool Bifurcation Option Terms and Conditions | <ul style="list-style-type: none"> ▪ A3-3-02, Concurrent Servicing Transfers |