



Selling Guide Announcement (SEL-2022-10)

Dec. 14, 2022

This month, we have a number of *Selling Guide* updates that support our commitment to equitable and sustainable homeownership, including:

- [Single-width manufactured homes](#): allowing financing of older single-width manufactured homes by removing the maximum 10-year age
- [Valuation options for deed-restricted properties](#): allowing lenders to use a desktop appraisal or appraisal waiver for deed-restricted properties that do not contain resale restrictions based on price
- [ENERGY STAR®-certified improvements](#): expanding the list of exceptions to the home energy report to include ENERGY STAR-certified improvements

We are continuously evolving and clarifying our policies to promote safe and responsible lending, including:

- [Maintaining seller and servicer approval](#): updating the requirements for maintaining seller and servicer approval status
- [Grants and borrower contributions](#): clarifying the borrower contribution requirements when there is a grant or lender-funded grant
- [Temporary leave income](#): clarifying the policy when temporary leave is employer-initiated
- [Use of business assets](#): simplifying documentation requirements when business assets are used for non-self-employed loans
- [Property, flood, and project insurance updates](#): updating insurance requirements to align with current industry standards and practices
- [Miscellaneous updates](#):
 - Form 1103
 - Gift letters
 - Electronic Consent Based Social Security Number Verification
 - Assumption policies
 - Guide maintenance

View the list of [impacted topics](#).

Single-width manufactured homes

The current manufactured home property eligibility requirements specify a single-width manufactured home can be no older than 10 years, measured from the manufacture date on the HUD Data Plate to the effective date of the original appraisal. We updated our property eligibility criteria to remove this requirement and align the age requirement with other manufactured home products, which allows manufactured home units manufactured on or after June 15, 1976.

Effective: Lenders may take advantage of this update immediately.



Valuation options for deed-restricted properties

Our current policy states that community land trusts or other properties with resale restrictions (including Desktop Underwriter® (DU®) loan casefiles using the Affordable LTV feature) are ineligible for an appraisal waiver or desktop appraisal. To provide greater clarity, we updated the list of ineligible transactions to specifically restrict properties with resale *price* restrictions from appraisal waiver and desktop appraisal eligibility. This includes deed restrictions that supersede market pricing at the time of sale of the property. A community land trust or other deed restriction that does not restrict the future sales price of the property but have deed restrictions based on other criteria, such as borrower income or age, are eligible for a desktop appraisal or appraisal waiver.

Effective: Lenders may take advantage of this update immediately.

ENERGY STAR-certified improvements

We expanded the list of exceptions to the home energy report requirements to include ENERGY STAR-certified improvements. Lenders will no longer be required to obtain an energy report for permanently affixed improvements identified on the [EPA ENERGY STAR-certified product list](#). Instead, lenders are only required to verify, and retain documentation in the loan file, that an improvement is on the EPA ENERGY STAR-certified product list. Lenders must deliver the loan with Special Feature Code (SFC) 773 (ENERGY STAR-certified improvement) and SFC 375 (HomeStyle® Energy).

Effective: Lenders may take advantage of this update immediately.

Maintaining seller and servicer approval

Currently, inactive sellers and servicers can maintain their approved status by paying an annual \$1,000 maintenance fee. Payment of this fee allows the seller or servicer to remain in an approved status and maintain access to our technology even though they have no intention to sell us loans or service loans for us. We also provide for reactivation of inactive sellers and servicers based certain criteria and the payment of a \$2,500 reactivation fee.

With this update, we are changing our policy for maintaining approved seller and servicer status. Beginning in 2024 (for the calendar year 2023), to maintain approval status sellers must sell us at least 12 loans per year, and servicers must service at least one loan for Fannie Mae as of December 31. Failure to meet these minimum requirements will result in termination of approval status. Sellers or servicers must reapply following our then-current approval requirements to become an approved seller or servicer in the future.

Effective: These policies will become effective Jan. 1, 2024, for sale and servicing activity in 2023.

Grants and borrower contributions

In the August *Selling Guide* update, we added a policy allowing lender-funded grants. The policy requires the loan to be a HomeReady® loan, and the borrower must make at least a 3% contribution from their own funds or other eligible sources.

Based on questions we received, we are providing further clarification of the borrower contribution requirements based on the product (HomeReady or standard transactions), source of the grant (lender-funded or standard), the subject property's number of units, and the LTV ratio. Note that we did not change any borrower contribution requirements, but only clarified the percentage and source of funds needed for each scenario.

Temporary leave income

We added clarifying language to the temporary leave income policy to specify that mandatory leave initiated by an employer, such as a furlough, is not considered temporary leave. In addition, we clarified that income resulting from a furlough, layoff, or other employer-initiated action is not eligible to be used as qualifying income unless it is associated with seasonal employment.



Use of business assets

We simplified documentation requirements when self-employment income is not being used to qualify for the loan, but the borrower is using assets from their business towards down payment, closing costs, and/or financial reserves. The lender is not required to perform a business cash flow analysis, provided the borrower is listed as an owner of the account and the account is verified in accordance with B3-4.2-01, Verification of Deposits and Assets.

Property, flood, and project insurance updates

We updated requirements in *Selling Guide* Chapters [B7-3, Property and Flood Insurance](#) and [B7-4, Liability and Fidelity/Crime Insurance Requirements for Project Developments](#) to better align our insurance requirements with current industry standards, and to address common lender and servicer questions.

Given the extent of the revisions, an [Attachment](#) to this Announcement provides a description of the updates. In addition to the updates described in the attachment, we have

- replaced outdated terminology and requirements with language that aligns with the products available in the current insurance marketplace, and
- reorganized and streamlined the content for ease of use and consistency, including minor updates to clarify existing insurance requirements.

Additionally, certain project insurance requirements FAQs were incorporated into the *Selling Guide*, and the FAQs will be retired with this Guide update.

The *Servicing Guide* will be updated on Dec. 21, 2022, to ensure consistency with the updated and reorganized content in the *Selling Guide*.

Effective: Lenders are encouraged to implement these changes immediately but must do so for all loans with application dates on and after May 1, 2023.

Servicers are encouraged to implement these changes immediately but must do so for loans with insurance policies renewed or obtained on and after May 1, 2023.

Miscellaneous Updates

Form 1103: We updated [B1-1-01, Contents of the Application Package](#), to require a copy of the *Supplemental Consumer Information Form (Form 1103)* in the permanent loan file in accordance with [Lender Letter LL-2022-03](#). [B2-2-06, Homeownership Education and Housing Counseling](#), was also updated to refer to Form 1103 for collection of information about housing counseling and education. A copy of the form must be maintained in the loan file for all conventional loans with application dates beginning March 1, 2023, and any data provided must be shared with us via DU when a loan is submitted for underwriting.

Gift letters: [B3-4.3-04, Personal Gifts](#) was updated to allow gift letters to specify the actual or the maximum dollar amount of the gift. Additionally, we removed the requirement that gift letters must specify the date the funds were transferred. The gift letter requirements apply to both personal gifts and gifts of equity.

Electronic Consent Based Social Security Number Verification: In [B2-2-01, General Borrower Eligibility Requirements](#) the current policy requires that each borrower have a valid Social Security number or Individual Taxpayer Identification Number (in addition to meeting existing legal residency and documentation 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. Direct validation of the borrower's Social Security number with the Social Security Administration may be required through the use of Form SSA-89.

The Social Security Administration has introduced a new service for validating Social Security numbers – the electronic Consent Based Social Security Number Verification ([eCBSV](#)) Service. With consent from the individual, eCBSV allows permitted entities to



verify if an individual's Social Security number, name, and date of birth combination matches Social Security records. Lenders may use the eCBSV service to validate Social Security numbers and must retain evidence in the loan file.

Assumption policies

- We updated [B2-1.4-01, Fixed-Rate Loans](#) to align with the fixed-rate uniform instruments to reaffirm that conventional fixed-rate loans are not assumable. Per the terms of the uniform note and security instrument, fixed-rate loans have a due-on-sale/transfer clause that authorizes the lender to accelerate the loan, unless prohibited by law, if all or any part of the property or interest in the property (including any beneficial interest in the property) is sold or transferred without the lender's consent (see Fixed-Rate Note Section 10; and Security Instrument Section 18). The *Servicing Guide* describes the conditions that apply to a transfer of ownership. Except in certain limited exceptions, the servicer must enforce the due-on-sale/transfer provision and accelerate the debt for most fixed-rate loans as required by the *Servicing Guide*, D1-4.1-05, Enforcing the Due-on-Sale (or Due-on-Transfer) Provision. As of the note date, all conventional fixed-rate loans are not assumable and lenders must complete the Assumption Indicator as "False" in Loan Delivery (Sort ID 225).
- [B2-1.4-02 Adjustable-Rate Mortgages \(ARMs\)](#) was updated to remove an incorrect reference in the assumption section related to determining the yield.
- [B6-1-04 Eligible HUD-Guaranteed Section 184 Mortgages](#) and [B6-1-05 Eligible RD-Guaranteed Mortgages](#) were updated to reflect these loan types are assumable and lenders must complete the Assumption Indicator as "True" in Loan Delivery.

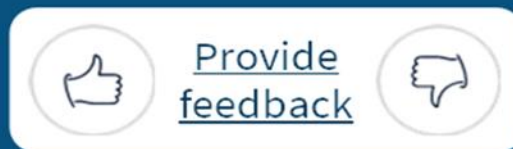
Note: These are not new policies; however, we have determined it is now appropriate to implement edits in Loan Delivery to address the accuracy of delivery data. See the [Loan Delivery Job Aid](#) for additional information.

Guide maintenance: As part of our on-going maintenance of the *Selling Guide*, we have begun the practice of removing announcements that were published prior to 2018 from the Related Announcements lists. Over the course of the next few months, we will make this change to all topics in the Guide.

Note: Information about topic updates older than 2018 can be found in older PDF versions of the *Selling Guide* published on [fanniemae.com](#).

Lenders may contact their Fannie Mae Account Team if they have questions about this Announcement.
Have guide questions? Get answers to all your policy questions, straight from the source. [Ask Poli](#).

Let your voice be heard! We want your feedback on our policy communications to help us improve the clarity of new and updated policy and understand any implications to borrowers. Click below to take a short survey regarding this Announcement.





Impacted Topics

Section of the Announcement	Updated <i>Selling Guide</i> Topics (Dated Dec. 14, 2022)
Single-width manufactured homes	<ul style="list-style-type: none"> ▪ B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing ▪ B5-2-02, Manufactured Housing Loan Eligibility
Valuation options for deed restricted properties	<ul style="list-style-type: none"> ▪ B4-1.2-02, Desktop Appraisals ▪ B4-1.4-10, Appraisal Waivers
ENERGY STAR-certified improvements	<ul style="list-style-type: none"> ▪ B5-3.2-01, HomeStyle Renovation Mortgages ▪ B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties
Maintaining seller and servicer approval	<ul style="list-style-type: none"> ▪ A4-1-01, Maintaining Seller/Servicer Eligibility ▪ E-1-02, List of Contacts
Grants and borrower contributions	<ul style="list-style-type: none"> ▪ B3-4.3-06, Grants and Lender Contributions ▪ B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements
Temporary leave income	<ul style="list-style-type: none"> ▪ B3-3.1-09, Other Sources of Income
Use of business assets	<ul style="list-style-type: none"> ▪ B3-3.2-01, Underwriting Factors and Documentation for a Self-Employed Borrower ▪ B3-4.2-02, Depository Accounts
Property, flood and project insurance updates	<ul style="list-style-type: none"> ▪ B7-3-01, General Property Insurance Requirements for All Property Types ▪ B7-3-02, Property Insurance Requirements for One-to Four-Unit Properties ▪ B7-3-03, Master Property Insurance Requirements for Project Developments ▪ B7-3-04, Individual Property Insurance Requirements for a Unit in a Project Development ▪ B7-3-05, Additional Insurance Requirements ▪ B7-3-06, Flood Insurance Requirements for All Property Types ▪ B7-3-07, Evidence of Property Insurance ▪ B7-3-08, Mortgagee Clause, Named Insured, and Notice of Cancellation Requirements ▪ B7-4-01, General Liability Insurance Requirements for Project Developments ▪ B7-4-02, Fidelity/Crime Insurance Requirements for Project Developments ▪ Chapter E-3, Glossary



Attachment

The following table describes clarifications, increased flexibilities, and new requirements made throughout B7-3, Property and Flood Insurance, and B7-4, Liability and Fidelity/Crime Insurance Requirements for Project Developments.

Selling Guide Topic*	Description of Change
B7-3-02, Property Insurance Requirements for One- to Four-Unit Properties	<p><i>Coverage Requirements</i></p> <p>Clarified</p> <ul style="list-style-type: none"> ▪ that property insurance policies should be written on a “Special” coverage form, or equivalent; ▪ the required perils for property insurance covering one-to four-unit properties; ▪ the definition of windstorm to include storms designated by the U.S. National Weather Service or the National Oceanic and Atmospheric Administration by a name or number; and ▪ that property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable for property insurance policies covering one-to four-unit properties. <p><i>Determining the Required Coverage Amount</i></p> <p>Clarified that when determining the property insurance coverage amount required for one- to four-unit properties, the verification source may be the property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination.</p> <p><i>Deductible Requirements</i></p> <p>Clarified that the maximum allowable deductible for all one- to four-unit properties applies to all required perils, including when a property insurance policy includes multiple deductibles.</p>
B7-3-03, Master Property Insurance Requirements for Project Developments	<p><i>Overview</i></p> <p>Clarified that the property insurance requirements applicable to condo projects throughout Chapter B7-3, Property and Flood Insurance Requirements apply to two- to- four-unit condos and detached condos unless stated otherwise.</p> <p><i>Determining if a Master Property Insurance Policy is Required</i></p> <p>Updated policy to no longer require that lenders or servicers verify master property insurance coverage on PUD common elements when units located within a PUD are covered by individual property insurance policies maintained by their respective owner(s).</p> <p><i>Coverage Requirements</i></p> <p>Clarified</p> <ul style="list-style-type: none"> ▪ that master property insurance policies should be written on a “Special” coverage form, or equivalent; ▪ the required perils for master property insurance covering project developments; ▪ the definition of windstorm to include storms designated by the U.S. National Weather Service or the National Oceanic and Atmospheric Administration by a name or number; and ▪ that property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable for property insurance policies covering project developments. <p><i>Determining the Required Coverage Amount</i></p>



	<p>Clarified that when determining the master property insurance coverage amount required, the verification source may be the property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination.</p> <p><i>Deductible Requirements</i></p> <ul style="list-style-type: none"> ▪ Permitting a per-unit master property insurance policy deductible when the sum of the applicable per-unit deductibles exceeds 5% of the property insurance coverage amount for named perils specific to a geographic area when such coverage is common and customary, and the borrower’s individual property insurance policy meets certain requirements. ▪ Permitting use of deductible buy-back policies to meet Fannie Mae’s master property insurance policy deductible requirements for project developments, provided the policy meets all other property insurance requirements in Chapter B7-3, Property and Flood Insurance. ▪ Clarified that the maximum allowable deductible for all project developments applies to all required perils, including when a property insurance policy includes multiple deductibles. <p><i>Special Coverage Requirements for Condo Projects</i></p> <p>Updated policy to provide flexibility that allows for master property insurance policies on condo projects to be endorsed with a Condominium Association Coverage Form or its equivalent, which must include certain provisions, or comparable language.</p> <p><i>Builder/Developer Property Insurance Policies</i></p> <p>Updated policy to provide that builder/developer property insurance policies are permissible in lieu of master property insurance policies for units in project developments still under construction when the builder’s/developer’s property insurance policy provides coverage that is equivalent to the required coverage for project developments. Additionally, separate projects under development by the same builder/developer shall 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.</p> <p><i>Policies Covering Multiple Projects</i></p> <p>Permitting a property insurance policy that covers multiple unaffiliated projects if the coverage amount dedicated to the subject project is 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, including confirming that the HOA or co-op corporation is protected in the same manner as if it maintained a master property insurance policy.</p> <p>Additionally, all other master property insurance requirements for project developments must be met.</p>
<p>B7-3-05, Additional Insurance Requirements for All Properties</p>	<p><i>Insurance Requirements for Renovation and Energy-Related Improvement Loans</i></p> <p>Updated policy to require that lenders and servicers must ensure that 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.</p>
<p>B7-3-06, Flood Insurance Requirements for All Properties</p>	<p><i>Deductible Requirements</i></p> <p>Clarified the maximum flood insurance deductible requirement based on the property type, regardless of whether it is insured by NFIP or a private flood insurer.</p>



B7-3-07, Evidence of Property Insurance	<p><i>Master Property Insurance Policies for Project Developments</i></p> <p>Clarified that, when required, lenders and servicers must obtain evidence of master property insurance covering project developments.</p>
B7-3-08, Mortgagee Clause, Named Insured and Notice of Cancellation Requirements	<p><i>Mortgagee Clause for Property and Flood Insurance</i></p> <p>Clarified that lenders and servicers must both adhere to the mortgagee clause requirements for property and flood insurance policies covering one- to four-unit properties and individual units in project developments.</p> <p><i>Named Insured for Property and Flood Insurance</i></p> <p>Updated policy to require that lenders and servicers must ensure all persons holding title to the subject property are designated as the named insured on property and flood insurance policies for one- to four-unit properties and units in project developments.</p> <p><i>Notice of Cancellation for Property Insurance</i></p> <p>Updated policy to require that lenders and servicers must ensure that property insurance policies provide for written notice to the named insured and mortgagee(s) before an insurer can cancel a policy for one- to four-unit properties and units in project developments.</p>
B7-4-01, General Liability Insurance Requirements for Project Developments	<p><i>Named Insured</i></p> <p>Updated policy to require that lenders and servicers must ensure the HOA or co-op corporation is designated as the named insured on general liability insurance policies covering project developments.</p>
Chapter E-3, Glossary	<p>Revised the definition of the following glossary terms for clarity:</p> <ul style="list-style-type: none"> ▪ Affiliated projects ▪ coinsurance ▪ errors and omissions insurance ▪ Fair Access to Insurance Requirements (FAIR) plan ▪ fidelity bond ▪ fidelity/crime insurance ▪ flood insurance ▪ general liability insurance ▪ homeowner’s insurance ▪ mortgage impairment insurance ▪ property insurance

The following table describes requirements that have been retired.

Selling Guide Topic*	Description of Change
B7-3-02, Property Insurance Requirements for One- to Four-Unit Properties	Removed reference to property insurance requirements for construction-to-permanent mortgages as this policy is no longer applicable.
B7-3-03, Master Property Insurance Requirements for Project Developments	Removed the notice of cancellation requirement for master property insurance policies on project developments.



B7-3-05, Additional Insurance Requirements for All Properties	Removed reference to builder's risk insurance as this policy is no longer applicable.
B7-4-01, General Liability Insurance Requirements for Project Developments	Removed the notice of cancellation requirement for liability insurance on condo and co-op projects.
B7-4-02, Fidelity/Crime Insurance Requirements for Project Developments	Removed the notice of cancellation requirement for fidelity/crime insurance on condo and co-op projects.

*As some *Selling Guide* topic titles and numbers have changed, we are using the updated *Selling Guide* topic title and number for your convenience.