MPF® Announcement

MPF Announcement:
2021-16

Date:
February 25, 2021

Alert:
Clarification
New Policy
Policy Update
Reminder
Training Information

Audience:
Compliance/Legal
Program Management
Origination
Quality Control
Servicing
Underwriting

Product:
MPF Direct
MPF Government MBS
MPF Traditional
MPF Xtra®

Effective Date:

Immediately *(unless otherwise noted)*

Reference

Fannie Mae Lender Letter LL-2021-03

Fannie Mae Lender Letter LL-2021-04

Please note you can access the MPF Guides and MPF Announcements on our MPF Website.

Visit the MPF Website to review and register for upcoming complimentary MPF Webinars.

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Impact of COVID-19 on Originations of MPF Xtra Loans

Fannie Mae issued updates to the COVID-19 Originations and Appraisals Lender Letters, communicating updates to temporary policies previously announced. The policies in the Lender Letters are effective immediately and are effective until Fannie Mae provides further notice, unless otherwise stated.

Updates to **Fannie Mae Lender Letter LL-2021-03** - Impact of COVID-19 on Originations

- Extended the application dates from February 28, 2021 to March 31, 2021 for the verbal verifications of employment and power of attorney flexibilities.

Updates to **Fannie Mae Lender Letter LL-2021-04** - Impact of COVID-19 on Appraisals

- Extended the application dates eligible for the temporary appraisal flexibilities from February 28, 2021 to March 31, 2021, unless otherwise noted.

PFIs and Servicers of **MPF XTRA** must follow the relief policies and guidance issued by Fannie Mae, including the announcements below and by visiting Fannie Mae's COVID-19 webpage.

In addition, PFIs and Servicers originating, delivering or servicing:

- MPF Traditional (Conventional) loans must follow the policies and guidance recently issued by the MPF Program. Please visit the MPF Website to view recently published MPF Announcements.

- MPF Government loans and MPF Government MBS loans, must follow policies and guidance issued by the applicable Government Agencies.
- MPF Direct loans, must follow policies and guidance issued by the product's investor, Redwood Trust.

To gain a full understanding of these topics, PFIs and Servicers should review the entire Fannie Mae Lender Letter plus any applicable Fannie Mae Guide chapters, forms, or exhibits noted in the announcement.

Fannie Mae®

Lender Letter (LL-2021-03)

Updated: Feb. 10, 2021

To: All Fannie Mae Single-Family Sellers
Impact of COVID-19 on Originations

This Lender Letter contains the policies previously published in LL-2020-03 on Dec. 10, 2020, with the changes noted below. We are continuing to collaborate with FHFA and Freddie Mac and will update and republish this Lender Letter as necessary.

Feb. 10, 2021

- Extending the application dates for verbal verifications of employment and power of attorney flexibilities to Mar. 31, 2021

Jan. 14, 2021

- Extending the application dates for verbal verifications of employment and power of attorney flexibilities to Feb. 28, 2021
- Content was reorganized such that the policies with explicit expiration dates are shown first, and like content was moved closer together (income and employment). Content that no longer applies was removed (such as quality control flexibilities and submission of financial statements), as have reminders of current policies in the *Selling Guide*.

Verbal verification of employment Updated Jan. 14, Feb. 10

Effective: These temporary flexibilities became effective on Mar. 23, 2020 for all loans in process and are effective for loans with application dates on or before Mar. 31, 2021.

Many lenders are reporting difficulty in obtaining the verbal verification of employment (VOE) due to disruption to operations of the borrower's employer. We expect lenders to attempt to obtain the verbal VOE in accordance with our existing requirements guidance. However, we will allow the following flexibilities:

- **Written VOE**: The *Selling Guide* permits the lender to obtain a written VOE confirming the borrower's current employment status within the same timeframe as the verbal VOE requirements. An email directly from the employer's work email address that identifies the name and title of the verifier and the borrower's name and current employment status may be used in lieu of a verbal VOE. In addition, the lender may obtain the VOE after loan closing, up to the time of loan delivery (though we strongly encourage getting the verbal VOE before the note date).
- **Paystub**: The lender may obtain a year-to-date paystub from the pay period that immediately precedes the note date.
- **Bank statements**: The lender can provide bank statements (or other alternative documentation as permitted by B3-4.2-01, Verification of Deposits and Assets) evidencing the payroll deposit from the pay period that immediately precedes the note date.

Powers of attorney Updated Jan. 14, Feb. 10

Effective: Unless otherwise noted in this section, these temporary flexibilities became effective on Mar. 31, 2020 for all loans in process and are effective for loans with application dates on or before Mar. 31, 2021.

Selling Guide, B8-5-05, Requirements for Use of a Power of Attorney, contains our requirements for powers of attorney. The following additional requirements for using a power of attorney apply:

- All powers of attorney must include the address of the mortgaged property.

- The existing *Selling Guide* conditions allowing persons "connected to the transaction" to serve as an attorney-in-fact or agent in refinance transactions will also now apply to purchase transactions as well as limited cash-out refinances. This includes all the related current requirements applicable to limited cash-out refinance transactions involving these persons in the *Selling Guide* (that is, excluding lender employees, limiting by loan amount and property location, requiring a recorded Internet session after the borrower has received proposed loan documents, and mandating retention of the recording).
- Unless a recorded Internet session described in the paragraph above is required, a power of attorney may only be used in a purchase transaction with a note date on or after Apr. 7, 2020, if, after the Closing Disclosure or other closing statement, as applicable, has been delivered to the borrower before closing, an employee of the lender or settlement agent explains the terms of the loan to the borrower(s) to confirm that each borrower understands them. This discussion must take place in person, telephonically, or using a video conference system, and must be memorialized by an acknowledgment by the borrowers of his or her understanding of the terms of the loan. The acknowledgment may be in writing or in a recording of the telephonic or video discussion.
- Notwithstanding anything to the contrary in the *Selling Guide* or this Lender Letter, for purchase transactions the attorney-in-fact or agent may not be the property seller, any relative of the property seller, or any direct or indirect employee or agent of the property seller, unless in any such instance such person is also a relative of the borrower.
- Whenever an attorney-in-fact or agent is an employee of the insuring title insurer or is an employee of the policy-issuing agent of the insuring title insurer, such title insurer must have issued a closing protection letter (or similar contractual protection) for the transaction for such policy issuing agent.
- Whenever a power of attorney is used at closing, whether authorized under the *Selling Guide* or under the standards in this Lender Letter, the provisions of B1-1-01, Application Package Documentation requiring the borrower's personal signature of the initial Form 1003 continue to apply if the initial Form 1003 can be signed personally (including through the United States Postal Service or commercial delivery service), or signed electronically as permitted by the *Selling Guide*. If the initial Form 1003 cannot be timely signed by the borrower in these ways, then it must be signed by the holder of such power of attorney.
- Provided the power of attorney is not required to be notarized under applicable law (for example, the law governing the creation of the power of attorney, or the law of the location of the mortgaged property), the power of attorney is not required to be notarized if the transaction is a limited cash-out refinance unless
  - the attorney-in-fact or agent named in the power of attorney is employed by, or otherwise represents or is affiliated with, the title insurance company that will issue the lender's title insurance policy, and
  - such title insurance company is affiliated with the lender.
- If a power of attorney is required to be notarized, it may be remotely notarized in accordance with A2-4.1-03, Electronic Records, Signatures, and Transactions (as revised by this Lender Letter) with the additional flexibility that it may be remotely notarized in all jurisdictions, even if not expressly permitted by the Guide, as long as the power of attorney is not required to be recorded. If the power of attorney is required to be recorded, it may be remotely notarized only in the jurisdictions permitted by A2-4.1-03.
- The limitations in B8-5-05 requiring at least one borrower signature of the note and security instrument are suspended.
- Under the *Guide to Delivering eMortgages to Fannie Mae*, powers of attorney are not permitted to be used in connection with loans with electronic notes ("eNotes"). Fannie Mae revised the eMortgage Guide effective Apr. 20, 2020 to permit eNotes to be delivered in transactions in which a printed or electronic power of attorney is used on the same conditions as those applying to paper notes, except that the power of attorney must accompany the eNote through MERS® eDelivery. In anticipation of the change in the eMortgage Guide, lenders that are authorized to deliver eNotes may begin permitting the use of powers of attorney consistent with B8-5-05 and this Lender Letter immediately, provided that the eNote and related power of attorney may not be delivered to Fannie Mae through MERS eDelivery or submitted to Loan Delivery until after Apr. 20, 2020.

The following existing policies remain in effect for loans using powers of attorney authorized by the *Selling Guide* as revised by this Lender Letter:

- Lenders may not deliver loans to us that have unacceptable title impediments. Accordingly, the lender must confirm that the title insurance policy does not take exception to the power of attorney, its manner of creation, the effectiveness of its notarization (if any) or to its use in relation to the transaction in accordance with B7-2-05, Title Exceptions and Impediments.
- Lenders must comply with all federal, state and local laws in accordance with A3-2-01, Compliance with Laws. In addition, for Texas Section 50(a)(6) loans, lenders may only use a power of attorney to execute the note or security instrument if the power of attorney is signed at a location at which a Texas Section 50(a)(6) loan may be closed and in conformity with applicable requirements.
- The current and revised provisions of B8-5-05 are always subject to the lender's determination that applicable law requires the acceptance of a power of attorney in particular circumstances. This remains in place, as does the requirement that the lender document its determination in the loan file.

Age of documentation

Effective: These policies became effective for loans with application dates on or after Apr. 14, 2020 and are effective until further notice.

In order to ensure that the most up-to-date information is being considered to support the borrower's ability to repay, we are updating our age of documentation requirements for all loans (existing and new construction) as follows:

- We are modifying age of document requirements from four months (120 days) to two months (60 days) for most income and asset documentation. If an asset account is reported on a quarterly basis, the lender must obtain the most recently issued quarterly statement.
- When the lender receives employment and income verification directly from a third-party employment verification vendor, we are now requiring that the information in the vendor's database be no more than 60 days old as of the note date.
- There are no changes to the age of documentation requirements for military income documented using a Leave and Earnings Statement, Social Security, retirement income, long-term disability, mortgage credit certificates, public assistance, foster care, or royalty payments, and the lender can continue to apply standard age of document requirements as stated in the *Selling Guide.*

All other requirements contained in B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns, continue to apply.

Conversion of construction-to-permanent financing – single-closing transactions

The *Selling Guide* currently allows certain single-closing construction-to-permanent transactions with credit documents dated more than 4 months but no more than 18 months at the time of conversion to permanent financing when certain conditions are met. (See B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions). Among those conditions is a requirement that the credit documents are dated within 120 days of the original closing.

Consistent with the age of credit documentation requirements in this Lender Letter, this requirement is being updated to reflect that the income and asset documentation must be dated within 60 days of the original closing. All other conditions related to the age of credit documents contained in B5-3.1-02 continue to apply.

Requirements for borrowers using self-employment income to qualify

Effective: These policies became effective for loans with application dates on or after Jun. 11, 2020. The updated requirements to obtain three business depository account statements (increased from two statements) with an unaudited profit and loss statement and to review the depository account statements to support the level of business revenue reported in the current YTD profit and loss statement were effective for loan applications dated on and after Dec. 14, 2020. All policies are effective until further notice.

Income Analysis

Self-employment income is variable in nature and generally subject to changing market and economic conditions. Whether a business is impacted by an adverse event, such as COVID-19, and the extent to which business earnings are impacted can depend on the nature of the business or the demand for products or services offered by the business. Income from a business that has been negatively impacted by changing conditions is not necessarily ineligible for use in qualifying the borrower. However, the lender is required to determine if the borrower's income is stable and has a reasonable expectation of continuance.

Due to the pandemic's continuing impact on businesses throughout the country, lenders are now required to obtain the following additional documentation to support the decision that the self-employment income meets our requirements:

- an audited year-to-date profit and loss statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date; or
- an unaudited year-to-date profit and loss statement signed by the borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and three business depository account(s) statements no older than the latest three months represented on the year-to-date profit and loss statement.
  - For example, the business depository account statements can be no older than Aug, Sep, Oct. for a year-to-date profit and loss statement dated through Oct. 31.
  - The lender must review the three most recent depository account statements to support the level of business revenue reported in the current year-to-date profit and loss statement. Otherwise, the lender must obtain additional statements or other documentation to support the on-going nature of business revenue reported in the current year-to-date profit and loss statement.

> **NOTE:** *The year-to-date profit and loss statement must be no older than 60 days old as of the note date consistent with current Age of Documentation requirements below.*

Lenders must review the profit and loss statement, and business depository accounts if required, and other relevant factors to determine the extent to which a business has been impacted by COVID-19. The lender can use the following guidance when performing the assessment of business operations and stability and must complete the business income assessment based on the minimum additional documentation above. In some instances, the lender may find it necessary to obtain supplemental documentation listed in the examples below.

Assessing the Impact of COVID-19	
Business operations	▪ Have business operations been maintained or modified to support continued business income? *For example, review an updated business plan.* ▪ Is the business continuing to operate in the current location or an alternate location suitable for business operations? *For example, perform an Internet search or verify through a third-party source.* ▪ Is there a demand for the product or service currently offered by the business? *For example, obtain current business receipts or purchase contracts.* ▪ Is the business operation and/or revenue temporarily restricted due to state shelter in place, stay at home or other similar state or local orders? ▪ Is the impact to the business operations negligible due to the nature of the business? *For example, obtain a written explanation from the business owner or confirmation that income is seasonal apart from the event timeline.*

Assessing the Impact of COVID-19	
Business Income	The lender must complete a business income assessment by comparing the year-to-date net business income from the year-to-date profit and loss statement to historical business income calculated using the *Cash Flow Analysis* (Form 1084)* for a similar timeframe (such as monthly). ▪ Lenders can make standard adjustments to business cash flow (net income on the profit and loss statement) in accordance with B3-3.4-04, Analyzing Profit and Loss Statements when making this determination. ▪ When the lender determines net business income is impacted, but profit and loss details are not sufficient to determine the income is stable at the reduced level, the lender can obtain additional documentation to supplement the profit and loss statement (such as a month-to-month income trending analysis) to make this determination. If stability cannot be confirmed, the income is not eligible for qualifying purposes. See B3-3.1-01, General Income Information for details. **Example** Historical monthly self-employment income calculated using Form 1084 = $2,000 Current level of stable monthly self-employment income as determined by the lender using details from the year-to-date profit and loss statement and other supplemental documentation = $1,000 The impact of the COVID 19 pandemic on current business income results in a 50% decline from historical levels. See Business Income Calculation Adjustment below for next steps. *Form 1084 or any other type of cash flow analysis form that applies the same principles.
Business Stability	▪ Does the profit and loss identify a significant imbalance between expenses and revenue that may impact financial stability? Or have modifications to current business operations been made to correct this imbalance? (Consider documenting with an updated business plan) ▪ Do prior year business tax returns demonstrate ample financial liquidity due to a history of retained earnings? ▪ Do current business account balances (excluding Paycheck Protection Program (PPP) or other similar COVID-19 related loans or grants) support the financial ability of the business to operate given current market and economic conditions? A current balance sheet may be used to support the lender's determination of business stability, in conjunction with the profit loss statement.

Business Income Calculation Adjustment

When the lender determines current year net business income has been impacted by the COVID-19 pandemic and is

- less than the historical monthly income calculated using Form 1084, but is stable at its current level, the lender must reduce the amount of qualifying income calculated using Form 1084 to no more than the current level of stable income as determined by the lender (see Business Income above).
- more than the historical income calculated using Form 1084, the lender must use no more than the currently stable level of income calculated using Form 1084 to qualify the borrower.

In all cases, qualifying income must be supported by documentation, including any supplemental documentation obtained by the lender.

Business Assets

We are clarifying that proceeds from the Small Business Administration PPP or any other similar COVID-19 related loans or grants are not considered business assets. Refer to B3-4-2-02, Depository Accounts for details.

Verification of self-employment

Effective: These policies became effective for loans with application dates on or after Apr. 14, 2020 and are effective until further notice.

When a borrower is using self-employment income to qualify, the lender must verify the existence of the borrower's business within 120 calendar days prior to the note date. Due to latency in system updates or recertifications using annual licenses, certifications, or government systems of record, lenders must take additional steps to confirm that the borrower's business is open and operating. The lender must confirm this within 20 business days of the note date (or after closing but prior to delivery).

Below are examples of methods the lender may use to confirm the borrower's business is currently operating:

- evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment);
- evidence of current business receipts within 20 days of the note date (payment for services performed);
- lender certification the business is open and operating (lender confirmed through a phone call or other means); or
- business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

See B3-3.1-07, Verbal Verification of Employment for our existing requirements.

Employment validation by the DU validation service

Effective: For new Desktop Underwriter® (DU®) loan casefiles created on or after May 4, 2020 and is effective until further notice.

To support sustainable homeownership while ensuring prudent risk management during these times of unprecedented unemployment, we are temporarily suspending representation and warranty relief for employment validation within the Desktop Underwriter® (DU®) validation service. Lenders must perform a verbal verification of employment in accordance with B3-3.1-07, Verbal Verification of Employment or follow the temporary policies outlined below.

While representation and warranty relief for employment validation is temporarily suspended, lenders will still be able to take advantage of the income and asset validation services with representation and warranty relief. Income validation for a borrower remains dependent on the borrower being employed. Lenders should continue to verify the employment of the borrower as close to closing as possible. When income or assets are validated, lenders should continue to follow the close-by dates and instructions issued in DU messages. If the lender discovers that the borrower is no longer employed, the associated income can no longer be considered in the qualification of the borrower, and the employment and associated income information should be removed from the Form 1003 and the casefile should be resubmitted to DU.

Refer to the DU Validation Service Release Notes published on May 1, 2020 and Apr. 9, 2020 for additional information.

Furloughed borrowers

Effective: This policy became effective for loans in process on May 5, 2020 and is effective until further notice.

The COVID-19 pandemic has resulted in an increase in furloughed employees. A furlough is a suspension from active employment that does not typically guarantee restoration of an employee's position when the furlough period ends. Until furloughed employees actually return to work, they are unable to provide evidence of a stable and reliable flow of employment-related income and are therefore ineligible under our Temporary Leave Income policy in B3-3-1-09, Other Sources of Income.

Temporary eligibility requirements for purchase and refinance transactions

Effective: These policies became effective for loans with application dates on or after Jun. 2, 2020 and are effective until further notice.

In response to lender feedback, we are addressing eligibility requirements for borrowers impacted by the COVID-19 pandemic. With this update we are providing eligibility guidelines for purchase and refinance transactions.

Lenders must continue to review the borrower's credit report to determine the status of all mortgage loans. In addition to reviewing the credit report, the lender must also apply due diligence for each mortgage loan on which the borrower is obligated, including co-signed mortgage loans and mortgage loans not related to the subject transaction, to determine whether the payments are current as of the note date of the new transaction. For the purposes of these requirements, "current" means the borrower has made all mortgage payments due in the month prior to the note date of the new loan transaction by no later than the last business day of that month. Examples of acceptable additional due diligence methods to document the loan file include:

- a loan payment history from the servicer or third-party verification service,
- a payoff statement (for mortgages being refinanced),
- the latest mortgage account statement from the borrower, and
- a verification of mortgage.

A borrower who is not current and has missed payments on any mortgage loan is eligible for a new mortgage loan if those missed payments were resolved in accordance with the requirements in the table below.

Resolution Method	Eligibility
Reinstatement	If the borrower resolved missed payments through a reinstatement, they are eligible for a new mortgage loan. The lender must document the source of funds in accordance with eligible sources of funds in the *Selling Guide*, if the reinstatement was completed after the application date of the new transaction. Proceeds from a refinance may not be used to reinstate any mortgage loan.
Loss Mitigation Solution	If outstanding payments will be or have been resolved through a loss mitigation solution, the borrower is eligible for a new mortgage loan if they have made at least three timely payments as of the note date of the new transaction as follows: ▪ For a repayment plan, the borrower must have made either three payments under the repayment plan or completed the repayment plan, whichever occurs first. Note that there is no requirement that the repayment plan be completed. ▪ For a payment deferral, the borrower must have made three consecutive payments following the effective date of the payment deferral agreement. ▪ For a modification, the borrower must have completed the three-month trial payment period. ▪ For any other loss mitigation solution not listed above, the borrower must have successfully completed the program, or made three consecutive full payments in accordance with the program. Verification that the borrower has made the required three timely payments may include: ▪ a loan payment history from the servicer or third-party verification service, ▪ the latest mortgage account statement from the borrower, and

	▪ a verification of mortgage. If these requirements are met on an existing mortgage loan being refinanced, the new loan amount can include the full amount required to satisfy the existing mortgage.

We are not considering payments missed during the time of a COVID-19-related forbearance that have been resolved to be historical delinquencies for purposes of our excessive mortgage delinquency policy as outlined in B3-5.3-03, Previous Mortgage Payment History. This flexibility does not apply to high LTV refinance loans, which must continue to meet the payment history requirements in B5-7-02, High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan.

Market-based assets

Effective: These policies became effective for loans with application dates on or after Apr. 14, 2020 and are effective until further notice.

Stocks, stock options, and mutual funds

In light of current market volatility, we are making the following updates when the borrower is using stocks, stock options, or mutual funds for assets:

- When used for down payment or closing costs, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented in all cases.
- When used for reserves, only 70% of the value of the asset must be considered, and liquidation is not required.

See B3-4.3-01, Stocks, Stock Options, Bonds and Mutual Funds for our existing requirements.

Sale of loans aged six months or less

Effective: These policies became effective on May 5, 2020 and are effective until further notice.

The national response to COVID-19 and the related economic impacts have resulted in uncertainty about risks associated with loans that have not been sold to us yet. Therefore, we are temporarily suspending bulk transactions and requiring that loans sold on a flow basis be no more than six months old to be eligible for sale to us. The loan's age will be calculated based on the following:

- Whole loans: from the first payment date to the date the loan data is submitted to Loan Delivery
  - Example: If loan data is submitted May 2020, the first payment date can be no earlier than Nov. 1, 2019
- MBS loans: from the first payment date to the pool issue date
  - Example: If the pool issue date is May 1, 2020 the first payment date can be no earlier than Nov. 1, 2019

> **NOTE:** *As previously communicated in Lender Letter LL-2020-04, Impact of COVID-19 on Appraisals, HomeStyle Renovation loans can be delivered up to 12 months after the note date provided the renovation is completed before loan delivery and the loan is delivered with Special Feature Code 279.*

Additional resources

We offer a wealth of information and resources for lenders, appraisers, and servicers to help borrowers deal with the challenges assocated with COVID-19:

- Single-family Here to Help COVID-19 website
- Ask Poli Selling and Ask Poli Servicing

Lenders may also contact their Fannie Mae Account Team if they have questions about this Lender Letter. Have guide questions? Get answers to all your policy questions, straight from the source. Ask Poli.

Fannie Mae

Lender Letter (LL-2021-04)

Updated: Feb. 10, 2021

To: All Fannie Mae Single-Family Sellers
Impact of COVID-19 on Appraisals

This Lender Letter contains the policies previously published in LL-2020-04 on Dec. 10, 2020, with the changes noted below. We are continuing to collaborate with FHFA and Freddie Mac and will update and republish this Lender Letter as necessary.

Feb. 10, 2021

- Extension of effective date: extending the application dates eligible for these temporary flexibilities to Mar. 31, 2021, unless otherwise noted.

Jan. 14, 2021

- Extension of effective date: extending the application dates eligible for these temporary flexibilities to Feb. 28, 2021, unless otherwise noted.
- Content was reorganized and like content was moved closer together (e.g., HomeStyle Renovation content). Two sections were removed (Identification of a Fannie Mae loan and Delivery requirements).

Effective: Unless otherwise noted below, these temporary flexibilities are effective for all loans in process and remain in place for loans with application dates on or before Mar. 31, 2021.

Temporary appraisal requirement flexibilities

On Mar. 23, 2020 we began allowing temporary flexibilities to our appraisal inspection and reporting requirements. As described below, we will accept an alternative to the traditional appraisal required under *Selling Guide* Chapter B4-1, Appraisal Requirements, when an interior inspection is not feasible because of COVID-19 concerns. We will allow either a desktop appraisal or an exterior-only inspection appraisal in lieu of the interior and exterior inspection appraisal (i.e., traditional appraisal).

If a traditional appraisal is not obtained and there is insufficient information about the property for an appraiser to be able to complete an appraisal assignment with a desktop or exterior-only inspection appraisal, the loan will not be eligible for delivery to us.

Loan purpose	LTV ratio	Occupancy	Ownership of loan being refinanced	Permissible appraisals
Purchase*	Per *Eligibility Matrix*	Principal residence	N/A	Traditional appraisal Desktop appraisal Exterior-only appraisal
	≤ 85%	Second home Investment		Traditional appraisal Desktop appraisal Exterior-only appraisal
	> 85%	Second home		Traditional appraisal
Limited cash-out refinance			Fannie Mae-owned	Traditional appraisal Exterior-only appraisal

Loan purpose	LTV ratio	Occupancy	Ownership of loan being refinanced	Permissible appraisals
	Per *Eligibility Matrix*	All	Not Fannie Mae-owned	Traditional appraisal
Cash-out refinance			Fannie Mae or not Fannie Mae-owned	Traditional appraisal

*Excludes construction-to-permanent loans.

NOTE: *For all loans with LTV ratios greater than 80%, we require mortgage insurance in accordance with our standard Selling Guide policy. Lenders must consult with their mortgage insurance companies to confirm coverage for mortgages using one of the temporary appraisal flexibilities.*

Use of lender variances and temporary appraisal flexibilities

The appraisal flexibilities announced in this Lender Letter may be combined with existing lender variances unless Fannie Mae notifies the lender that it may not combine negotiated terms with these flexibilities.

Regardless of specific lender variances, only Fannie Mae-owned, limited cash-out refinance transactions being sold to Fannie Mae and purchase transactions are eligible for the appraisal flexibility shown in the following table:

Loan purpose	LTV ratio	Occupancy	Ownership of loan being refinanced	Permissible appraisals
Purchase transaction, including new construction properties*	Up to 97%	Principal residence	N/A	Traditional appraisal Desktop appraisal Exterior-only appraisal
	≤ 85%	Second homes and investment properties		Traditional appraisal Desktop appraisal Exterior-only appraisal
Limited cash-out refinance	As permitted in the Selling Guide	All	Fannie Mae-owned	Traditional appraisal Exterior-only appraisal

*Per guidance above, new construction loans are not eligible for exterior-only appraisals.

A traditional appraisal with an interior and exterior inspections are required for all of the following:

- second home purchase transactions with LTV ratios > 85%,
- limited cash-out refinance transactions when the loan being refinanced is not owned by us, and
- cash-out refinance transactions.

All other requirements for the use of temporary flexibilities included in this lender letter apply.

Desktop appraisals

For purchase money transactions when an interior and exterior appraisal is not available, lenders are encouraged to obtain a desktop appraisal rather than an exterior-only appraisal.

The minimum scope of work for a desktop appraisal does not include an inspection of the subject property or comparable sales. The appraiser relies on public records, multiple listing service (MLS) information, and other third-party data sources to identify the property characteristics.

When a desktop appraisal is performed, reported on Form 1004 or Form 1073, and submitted to us through the Uniform Collateral Data Portal® (UCDP®), the appraisal will be scored by Collateral Underwriter® (CU®). All loans with a CU risk score of 2.5 or less will receive value representation and warranty relief under Day 1 Certainty®. With desktop appraisals, lenders will have the added risk management and efficiency benefit of being able to use CU to aid in the appraisal review process.

The table below provides the appraisal report form that must be used to complete the desktop appraisal for each property type.

Property Type	Acceptable Appraisal Form
One-unit property, including a unit in a planned unit development (PUD) or a detached condominium unit	*Uniform Residential Appraisal Report* (Form 1004)
Condominium unit	*Individual Condominium Unit Appraisal Report* (Form 1073)
Cooperative unit	*Individual Cooperative Interest Appraisal Report* (Fannie Mae Form 2090)
Two- to four-unit property	*Small Residential Income Property Appraisal Report* (Form 1025)
Manufactured home	*Manufactured Home Appraisal Report* (Form 1004C)

As described below, Freddie Mac and Fannie Mae have worked together to develop documents that include modified appraisal report language for the scope of work, statement of assumptions and limiting conditions, and certifications that must be used with these appraisal forms.

Exhibits for desktop appraisals

Each desktop appraisal report must include the following exhibits:

- a location map indicating the location of the subject and comparables, and
- photographs of the subject property. We recognize that it may be challenging in some instances to obtain photographs; however, it is expected that the appraiser utilizes all available means to obtain relevant pictures of the subject property.

Exterior-only inspection appraisals

An exterior-only inspection appraisal may be obtained in lieu of an interior and exterior inspection appraisal for the following transactions:

- purchase money loans
- limited cash-out refinances where the loan being refinanced is owned by Fannie Mae

Lenders will not receive value representation and warranty relief under Day 1 Certainty® for loans with exterior-only appraisals.

The table below shows the appraisal report form that must be used to complete an exterior-only inspection appraisal for each property type. Because there are not appropriate exterior-only appraisal report forms available for two- to four-unit properties and manufactured homes, we will accept an exterior appraisal scope of work completed using the applicable forms listed below.

Property Type	Acceptable Appraisal Form
One-unit property, including a unit in a planned unit development (PUD) or a detached condominium unit	*Exterior-Only Inspection Residential Appraisal Report* (Form 2055)
Attached condominium unit	*Exterior-Only Inspection Individual Condominium Unit Appraisal Report* (Form 1075)
Cooperative unit	*Exterior-Only Individual Cooperative Interest Appraisal Report* (Fannie Mae Form 2095)
Two- to four-unit property	*Small Residential Income Property Appraisal Report* (Form 1025)
Manufactured home	*Manufactured Home Appraisal Report* (Form 1004C)

As further described below, Freddie Mac and Fannie Mae have worked together to develop documents that include modified appraisal report language for the scope of work, statement of assumptions and limiting conditions, and certifications that must be used with these appraisal forms.

Exhibits for exterior-only inspection appraisals

Lenders are reminded that the following exhibits to the appraisal report are required for an exterior-only inspection appraisal:

- a street map that shows the location of the subject property and of all comparable sales that the appraiser used;
- clear, descriptive photographs (either in black and white or color) that show the front of the subject property, and that are appropriately identified (photographs must be originals that are produced either by photography or electronic imaging); and
- any other data–as an attachment or addendum to the appraisal report form–that are necessary to provide an adequately supported opinion of market value.

Revisions to the scope of work, statements of assumptions and limited conditions, and appraiser's certification

We recognize that the existing appraisal report forms do not accommodate the revised scope of work, statement of assumptions and limiting conditions, and certifications for some of the scenarios presented. To accommodate the temporary flexibilities in this Lender Letter, Freddie Mac and Fannie Mae have jointly developed the following documents that include modified language to be used with desktop appraisal reports and exterior-only appraisal reports:

- Modified Set of Instructions, Scope of Work, Statement of Assumptions and Limiting Conditions, and Certification for Desktop Appraisals
- Modified Set of Instructions, Scope of Work, Statement of Assumptions and Limiting Conditions, and Certification for Appraisals with Exterior-only Inspection

These documents include modified language for the scope of work, statement of assumptions and limiting conditions, and certifications. It is important to note that certification #10 has been removed in recognition that the appraiser may have relied on information from an interested party to the transaction (borrower, realtor, property contact, etc.) and additional verification may not have been feasible. Appraisal reports submitted to us using the flexibilities provided in this Lender Letter must include these documents with the modified language for scope of work, statement of assumptions and limiting conditions, and certifications.

Additional form instructions for appraisals

The Map Reference field on the Appraisal Report for appraisals that use the flexibilities provided in this Lender Letter may only contain the word "desktop" or "exterior." No other words or phrases may be used or included. The Map Reference field should reflect the appraisal type agreed to with the acceptance of the assignment and the minimum scope of work required for the assignment. The appraiser is responsible for determining what is the adequate scope of work for any assignment and may choose to expand the scope of work beyond the minimum required.

Appraisal waivers

Lenders are encouraged to accept appraisal waiver offers when eligible and provided through DU to address concerns around contact between appraisers and homeowners. Lenders are reminded to submit the case to DU to determine whether an appraisal waiver is offered before ordering an appraisal. We remind lenders that all *Selling Guide* requirements pertaining to appraisal waivers apply (see *Selling Guide* B4-1.4-10, Appraisal Waivers). We are continuing to monitor the impact of COVID-19 and will evaluate additional appraisal waiver flexibilities if the situation warrants such action.

Completion reports (Form 1004D)

We require the *Appraisal Update and/or Completion Report* (Form 1004D) to evidence completion when the appraisal report has been completed "subject to." For all loans for which a completion certification is not available due to issues related to COVID-19, (excluding HomeStyle® Renovation loans), we will permit a letter signed by the borrower confirming that the work was completed. Lenders must also provide further evidence of completion, which may include photographs of the completed work, paid invoices indicating completion, occupancy permits, or other substantially similar documentation. All completion documentation must be retained in the loan file.

Virtual inspections for appraisals and renovation loans

Beginning Apr. 14, 2020, appraisers may use virtual inspection methods to augment the data and imagery that is used for either a desktop appraisal or an exterior-only appraisal. All traditional appraisals require the appraiser to perform a complete onsite interior and exterior inspection of the property. A virtual inspection cannot be used as a substitute for the onsite interior and exterior inspection for a traditional appraisal. Additionally, an onsite interior and exterior inspection is required for the *Appraisal Update and/or Completion Report* (Form 1004D) used to confirm completion of renovation for HomeStyle Renovation loans. Virtual inspections using video and photographs provided by the borrower or contractor can be used to evidence renovation progress to disburse additional renovation funds as described below.

Flexibilities for HomeStyle® Renovation loans

Effective: These temporary flexibilities became effective Mar. 31, 2020 and are effective until further notice.

We are providing flexibility for inspection requirements for draws for HomeStyle Renovation loans in process. Effective immediately, we will allow lenders and servicers to use a *Completion of Construction Certification* indicating the planned work was completed per the schedule on the renovation or installation contract (in lieu of an inspection) to advance additional renovation funds. This letter must be accompanied by supporting evidence such as photographs, site videos, or other proof of completion, like paid invoices. All evidence, including photographs and site videos, must be of sufficient quality and scope for the lender or servicer to confirm the required work was sufficiently completed as outlined in the renovation contract. All evidence must be maintained in the renovation loan file. Lenders may use this flexibility when they are unable to have an inspector complete the onsite inspection due to COVID-19 related issues.

Additionally, we remind lenders that may be having difficulty having renovation completed within the negotiated timeframe that they can contact Fannie Mae to make alternative arrangements for the completion of the project. We require inspections and other documentation to review and approve requested extensions, but we will work with lenders on a case by case basis to determine appropriate alternatives.

We remind lenders that all HomeStyle Renovation loans require a traditional appraisal during the underwriting process. The desktop and exterior-only appraisal flexibilities described above may not be used for these loans. We also continue to require lenders obtain an *Appraisal Update and/or Completion Report* (Form 1004D) when the work is completed. The Form 1004D, along with other documentation described in *Selling Guide* B5-3.2-01, HomeStyle Renovation Mortgages, is required to remove recourse from the renovation loan.

Lastly, we understand that some lenders may be experiencing delays in obtaining the final title policy or a title policy update to show the removal of all materialman's liens. We continue to work on these issues and will provide further guidance at a later date.

HomeStyle Renovation loans in forbearance

We will allow renovation draws while a HomeStyle Renovation loan is in a forbearance status. All program requirements, including the flexibilities applicable to HomeStyle Renovation loans in this Lender Letter, continue to apply.

Delivery timeframe for HomeStyle Renovation loans when the renovation is completed prior to loan delivery

We are offering flexibility to our temporary requirement that all loans be delivered within six months of the note date for HomeStyle Renovation loans the lender will deliver to Fannie Mae after the renovation has been completed. We will allow our standard seasoning requirement of no more than 12 months after the note date for these loans provided the renovation has been completed according to plans and the loan is delivered with Special Feature Code 279. HomeStyle Renovation loans the lender delivers prior to completion of renovation are subject to the temporary six month delivery seasoning requirement described in Lender Letter LL-2021-03, Impact of COVID-19 on Originations.

Recourse removal for HomeStyle Renovation loans that were subject to forbearance

Effective: These temporary flexibilities became effective May 28, 2020 and are effective until further notice.

We are offering temporary flexibilities for recourse removal on HomeStyle Renovation loans that were subject to COVID-19 related forbearance during the renovation period. For loans to be eligible for these flexibilities, the forbearance must be resolved and the borrower must be actively making mortgage payments under the original mortgage terms.
As long as the loan is not delinquent at the time of the request, a lender may request recourse to be removed upon documentation of completion of renovation on a loan that was subject to forbearance and meets one of the following criteria:

- The borrower continued making regularly scheduled mortgage payments during the forbearance period (no payments were missed). Recourse may be removed upon termination of the forbearance and submission of satisfactory renovation completion evidence.
- The borrower did not make regularly scheduled mortgage payments during the forbearance period (one or more payments were missed or the borrower remitted less than the agreed upon monthly payment one or more times). Recourse may be removed when the borrower has completed a repayment plan and the lender provides documentation that the loan remained current during the repayment period.

For loans requiring a modification agreement or payment deferral plan due to missed payments in forbearance, our existing requirements for loan modifications apply.

Loans where borrowers missed mortgage payments prior to Feb. 1, 2020, or at any time without entering into forbearance during the renovation period continue to be subject to the existing *Selling Guide* requirements for recourse removal on HomeStyle Renovation loans (*Selling Guide* B5-3.2-01, HomeStyle Renovation Mortgages). The timeline to allow recourse to be removed in this circumstance will be measured from the date the borrower resumed making timely payments on the original mortgage terms.

Flexibilities for new construction loans

Beginning Apr. 14, 2020, for new construction properties where the appraisal is "subject to completion per plans and specifications," and also when the property is 100% complete but an interior and exterior inspection appraisal cannot be completed, we will permit a desktop appraisal on the forms identified in the following table. Lenders must adhere to the LTV ratio requirements in Temporary appraisal requirement flexibilities, including the requirement that second homes with LTV ratios above 85% require a traditional appraisal. These requirements apply to purchase transactions only and exclude all construction-to-permanent loans.

Property Type	**Acceptable Appraisal Form**
One-unit property, including a unit in a planned unit development (PUD) or a detached condominium unit	*Uniform Residential Appraisal Report* (Form 1004)
Condominium unit	*Individual Condominium Unit Appraisal Report* (Form 1073)

Property Type	Acceptable Appraisal Form
Cooperative unit	*Individual Cooperative Interest Appraisal Report* (Fannie Mae Form 2090)
Two- to four-unit property	*Small Residential Income Property Appraisal Report* (Form 1025)
Manufactured home	*Manufactured Home Appraisal Report* (Form 1004C)

To accommodate the desktop appraisal on the existing Fannie Mae forms, the revisions to the scope of work, statements of assumptions and limited conditions, and appraiser's certification must accompany the form. Additionally, as noted above, the appraiser must identify a desktop appraisal was performed by populating the *Map Reference* field on the appraisal with "desktop."

Documentation requirements for new construction loans

If construction of the property has not yet begun or is partially complete, and the appraisal report will be completed "subject to completion per plans and specifications," the lender must provide the appraiser with, or ensure that the builder has provided the appraiser with the following:

- Plans and specifications
- Survey and/or plot plan
- Current photos of the subject property
  - If construction has not yet begun, a photograph of the site and down the street in both directions
  - If construction is partially complete, a photograph is required of the following:
    - A front view of the subject property
    - A rear view of the subject property
    - A street scene (i.e., a photograph down the street in both directions)
    - The following interior photos are required when construction is at a stage in which they are available:
      - The kitchen of the subject property
      - All bathrooms of the subject property
      - The main living area of the subject property
      - Basement, including all finished rooms
- A copy of the complete, ratified sales contract, and all addenda

If construction of the property is 100% complete, and the appraisal report will be completed "as is," the lender must provide the appraiser with, or ensure that the builder has provided the appraiser with the following:

- Plans and specifications
- Survey and/or plot plan
- Current photos of the subject property
  - A front view of the subject property
  - A rear view of the subject property
  - A street scene (i.e., a photograph down the street in both directions)
  - The kitchen of the subject property
  - All bathrooms of the subject property
  - The main living area of the subject property
  - Basement, including all finished rooms
- A copy of the complete, ratified sales contract, and all addenda

Builder certification

The lender must obtain a signed *Builder Certification* attesting that the information provided is true and correct. This certification must be included in the loan file.

Completion reports for new construction properties

For new construction properties where the appraisal report was completed "subject to completion per plans and specifications," if the lender is unable to obtain a completed *Appraisal Update and/or Completion Report* (Form 1004D) as a result of COVID-19 related issues, we will accept the *Completion of Construction Certification*.

Flexibilities for condominium project review

Beginning Apr. 14, 2020, we offered additional guidance and temporary flexibilities for project eligibility reviews on condo projects.

Waiver of project review

We are extending project review waiver flexibilities for loans with LTV ratios greater than 80% and up to 90%. This flexibility applies to Fannie Mae-owned, limited cash-out refinance transactions for owner-occupied condo units only. Second homes and investment transactions are excluded. When applying this flexibility, lenders must confirm the project meets the following, existing requirements:

- the litigation requirements described in *Selling Guide* B4-2.1-03, Ineligible Projects, and
- all policies in *Selling Guide* B4-2.1-02, Waiver of Project Review, for all loans with LTV ratios greater than 80% using the waiver of review for Fannie Mae-owned limited cash-out refinance transactions.

Lenders must provide Project Type Code V in the loan delivery data file for these transactions. The use of other Project Type Codes may result in fatal edits at loan delivery.

Project documents used in project reviews

Lenders have reported some HOAs are experiencing a delay in ratifying their 2020 budgets. When a budget review is required on an established project, we will accept the budget from the 2019 fiscal year if the current year's budget has not yet been ratified due to issues related to COVID-19. To utilize this flexibility, the lender must confirm the project currently meets the HOA dues delinquency requirements in *Selling Guide* B4-2.2-02, Full Review Process. All other project standards requirements in *Selling Guide* B4-2, Project Standards, continue to apply.

> **NOTE:** *New projects are excluded from this flexibility.*

Due to the impact of the COVID-19 pandemic on many businesses, we understand that lenders are having increased difficulties in obtaining project documents from some HOAs and property managers. Lenders may use other sources of condo project data to complete their project reviews including, but not limited to, appraisals, MLS records, plat map and site surveys, public records, state laws or local ordinances, and tax searches. Additionally, there are various vendor products available that provide project documents or information regarding project eligibility.

Some information and documents, such as the project's current budget, may only be available from the HOA or property manager. We recognize the lender may be unable to obtain this information immediately while the operations are closed for extended periods. We are reminding our lenders that if they previously completed a project review for an established condo project, that project review may be used for additional condo unit loans in the same condo project for up to one year (measured to the note date of the subsequent loans). For new condo projects, the timeframe is 180 days prior to the note date. Additionally, some lenders have found it helpful to use Fannie Mae's Condo Project Manager™ (CPM™) to help track and communicate project review status and review dates within their organizations.

> **NOTE:** *Lenders are responsible for obtaining mortgage insurance for all loans using these flexibilities when the loan's LTV ratio is above 80%.*

Additional resources

We offer a wealth of information and resources for lenders, appraisers, and servicers to help borrowers deal with the challenges assocated with COVID-19:

- Single-family Here to Help COVID-19 website
- Ask Poli Selling
- Ask Poli Servicing

Lenders may also contact their Fannie Mae Account Team if they have questions about this Lender Letter.
Have guide questions? Get answers to all your policy questions, straight from the source. Ask Poli.