MPF Announcement

June 12, 2019 2019-32

Alert
- **Policy Update**
- **New Policy**
- Reminder
- **Clarification**
- Training Information

Audience
- Program Management
- **Origination**
- Quality Control
- Servicing
- **Underwriting**
- Compliance/Legal

Product
- **MPF Xtra®**
- MPF® Direct
- MPF Government MBS
- MPF Traditional

Effective Date:

Immediately (unless otherwise noted)

REFERENCE

Fannie Mae Selling Notice

Fannie Mae Lender Letter LL-2019-06

Fannie Mae Selling Guide Announcement SEL-2019-05

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

Follow us on:

MPF Xtra Selling Guide Updates

On June 5, 2019 Fannie Mae issued multiple communications which cover the below referenced topics that are applicable to loans sold under the MPF Xtra product:

Selling Notice

- Implemented the acceptability of Private Flood Insurance policies.

Fannie Mae Lender Letter LL-2019-06

- Updated the HomeReady eligibility requirements, effective July 20, 2019, the income limit requirements for all HomeReady loans cannot exceed 80% area median income for the property's location, including properties in low-income census tracts.

- Updated the DU eligibility risk analysis and eligibility assessment. As a result, certain new loan casefiles submitted to DU on or after July 20, 2019 will receive an Ineligible recommendation when multiple high-risk factors

are present.

Fannie Mae Selling Announcement SEL-2019-05

- Updated policies that reference specific IRS tax forms that have been updated as a result of the Tax Cuts and Jobs Act.
- Revised the policy for acceptable title insurers, including removing the requirement for prescriptive ratings.
- Removed the requirement that the initial Uniform Residential Loan Application (Form 1003) must be signed by the borrower and retained in the loan file, with certain exceptions.

Other topics mentioned in the Fannie Mae announcement do not apply to MPF Xtra. To gain a full understanding of these topics, PFIs should review the entire Fannie Mae Announcements on the following pages, and any applicable Fannie Mae Selling Guide chapters, forms, or exhibits noted in the announcements.

Note

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

Fannie Mae®

Selling Notice

June 05, 2019

Acceptability of Private Flood Insurance

The National Flood Insurance Act of 1968 and the Flood Disaster Protection Act of 1973, as amended, require owners of residences located in a FEMA-designated Special Flood Hazard Area (SFHA) to obtain flood insurance in connection with certain mortgage loans (including those delivered to Fannie Mae). Amendments enacted as part of the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters Act) require certain lending institutions and Fannie Mae to accept "private flood insurance," as defined in the Biggert-Waters Act, in satisfaction of the flood insurance requirement.

The Biggert-Waters Act required the Office of the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Farm Credit Administration, and the National Credit Union Administration to develop a regulation applying that Act's "private flood insurance" requirement for financial institutions subject to their supervision. That regulation becomes effective July 1, 2019. We are not subject to that regulation, nor are we bound by its interpretation of "private flood insurance" required for us under the Biggert-Waters Act. Moreover, the Biggert-Waters Act treats us differently from the lending institutions subject to the new regulation by authorizing us to establish requirements for financial solvency, strength or claims-paying ability for issuers of private flood insurance policies we will accept.

We implemented the private flood insurance provisions of the Biggert-Waters Act applicable to us in 2013. Under our *Selling Guide*, private flood insurance policies may be delivered as an alternative to National Flood Insurance Program (NFIP) policies. To qualify, the terms and amount of coverage must be at least equal to that provided under an NFIP policy based on a review of the full policy issued by the private insurer. In addition, the insurer must meet the rating requirements in the *Selling Guide* for property insurers.

After the federal banking agencies' regulation becomes effective, we will continue to apply our current *Selling Guide* eligibility standards and procedures to all loans in SFHAs delivered to us, including the ratings requirements for issuers of private flood insurance. Likewise, we will continue to apply our current *Servicing Guide* eligibility and ratings requirements to all loans secured by residences that are in a SFHA at origination, or which are remapped into an SFHA after origination. These requirements apply to each lender and servicer subject to the federal banking agencies' regulation regardless of the regulatory provision employed by it (that is, "mandatory" or "discretionary") in complying with the regulation. This applies despite an institution's reliance on "compliance aid" language in a policy asserting qualification as "private flood insurance" under that regulation.

See the *Selling Guide*, B7-3-07, Flood Insurance Coverage Requirements, and the Servicing Guide, B-3-01, Flood Insurance Requirements Applicable to All Property Types, for additional information.

If customers have any questions or concerns regarding their compliance with the new regulation as it relates to our requirements, they should contact their Fannie Mae Account Team, Portfolio Manager, or our Single-Family Servicer Support Center at 1-800-2Fannie (1-800-232-6643).

Fannie Mae®

Lender Letter LL-2019-06

June 5, 2019

To: All Fannie Mae Single-Family Sellers
Upcoming HomeReady® and Desktop Underwriter® Updates

As a leading provider of liquidity to the housing finance industry, we work to improve the efficiency of the mortgage market and continue to provide access to mortgage financing in all markets at all times. We are committed to fulfilling our affordable housing mission by offering home finance options that meet market needs, while maintaining strong, sustainable credit standards that do not place undue risk on borrowers, taxpayers, or the housing finance system.

In order to fulfill these objectives, we must balance a number of business goals and regulatory mandates related to returns, capital management, securities performance, and affordable housing goals. As a result of certain regulatory and market developments, we are announcing changes to the following:

- HomeReady income limits, and
- Desktop Underwriter (DU®) eligibility assessment.

Each of these changes is described below. We believe these changes will better align to our affordable housing mission and result in a mix of business that better reflects the overall market.

HomeReady Income Limits

HomeReady is our flagship affordable product. It is designed to help our lenders serve more very low-, low-, and moderate-income creditworthy borrowers and to help us fulfill our affordable housing mission and regulatory housing goals. It offers reduced mortgage insurance costs and lower loan-level price adjustments for loans with low down payments (compared with similar non-HomeReady loans).

Currently, to be eligible for a HomeReady loan, the borrowers' total annual qualifying income may not exceed 100% of the area median income (AMI) for the property's location. There is no income limit for properties located in low-income census tracts (census tracts where the median income is not greater than 80% AMI). To better align with our housing goals, we are changing the income limit requirements for *all* HomeReady loans to not exceed 80% AMI for the property's location. (This includes properties in low-income census tracts.)

We remain committed to serving borrowers with income that exceeds the 80% AMI limit. These borrowers may continue to be eligible for low down payment loans under our standard (non-HomeReady) eligibility policies. Refer to the *Eligibility Matrix; Selling Guide*, B2-1.2-01, Purchase Transactions; and B2-1.2-02, Limited Cash-Out Refinance Transactions, for additional information.

DU Eligibility Assessment

As part of normal business operations, we regularly review DU to determine whether its risk analysis and eligibility assessment are appropriate based on the current market environment and loan performance information. As a result of our most recent review, we will be updating the DU eligibility assessment to better align the mix of business delivered to Fannie Mae with the composition of business in the overall market. As a result, certain new loan casefiles submitted to DU on or after July 20, 2019 will receive an Ineligible recommendation when multiple high-risk factors are present.

Effective Dates

- All of the above changes will apply to new loan casefiles submitted to DU the weekend of July 20, 2019.
- The 2019 HomeReady income limits will also be implemented in DU and in the HomeReady Income Eligibility Lookup Tool at the same time.
- The new limits and the 80% AMI change will apply to manually underwritten loans with application dates on or after July 20, 2019.
- On July 3, 2019 the *Selling Guide* will be updated to reflect the HomeReady 80% AMI limit.

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Lenders who have questions about this Lender Letter should contact their Fannie Mae Account Team.

Malloy Evans
Senior Vice President and
Chief Credit Officer for Single-Family

Selling Guide Announcement SEL-2019-05

June 5, 2019

Selling Guide Updates

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

- Tax Reform Legislation Policy
- Title Insurer Rating Requirements
- Signature Requirement for Initial *Uniform Residential Loan Application* (URLA) (Form 1003)
- Purchase of Certain LIBOR Adjustable-Rate Mortgage (ARM) Loans
- Miscellaneous *Selling Guide* Update

Each of the updates is described below. The affected topics for each policy change are listed on the Attachment. The *Selling Guide* provides full details of the policy changes. The updated topics are dated June 5, 2019.

Tax Reform Legislation Policy

A limited number of policies that reference specific IRS tax forms have been updated to incorporate changes made to 2018 IRS forms as a result of the Tax Cuts and Jobs Act. This includes new references to Schedule 1, filed as part of IRS Form 1040 effective with reporting of 2018 income for tax filing purposes. In addition, the reference to the Adjusted Gross Income Approach has been removed as it no longer serves to provide guidance in completion of Fannie Mae's *Cash Flow Analysis* (Form 1084).

The Form 1084 has also been updated to remove a reference to "entertainment" to align with changes to the IRS tax forms.

Effective Date

These updates apply to mortgage loans with 2018 IRS tax returns. Lenders can take advantage of these changes immediately.

Title Insurer Rating Requirements

We are updating our requirements for acceptable title insurers to remove prescriptive ratings. Lenders must now ensure title insurers are:

- duly authorized and licensed, as required, to issue title insurance in the state where the property is located; and
- further evaluated in accordance with the lender's procedures for title insurer approval.

Effective Date

Lenders can take advantage of this policy change immediately; but must implement the change for title insurer acceptability for loan applications dated on or after September 1, 2019.

Signature Requirement for Initial *Uniform Residential Loan Application* (URLA) (Form 1003)

With this update we removed the requirement that the initial Form 1003 be signed by the borrower and retained in the loan file. The exceptions that currently apply when a power of attorney is used to sign the loan documents remain and have been further clarified. The final signed version of the Form 1003 will continue to be required.

Effective Date

Lenders may take advantage of this change immediately.

Purchase of Certain LIBOR Adjustable-Rate Mortgage (ARM) Loans

We updated the *Selling Guide* to include changes related to the purchase and securitization of certain LIBOR ARM loans as previously announced in LL-2019-05.

Effective Date

This policy change was effective on May 17, 2019.

Miscellaneous *Selling Guide* Update

A2-5.1-03, Electronic Records, Signatures, and Transactions: We are introducing a new special feature code (SFC) 861 that must be delivered on all loans that have documents that were remotely notarized as part of an electronic notarization. Lenders may begin using SFC 861 immediately; but must do so for loans delivered on or after September 1, 2019. The Special Feature Codes list has been updated to include SFC 861.

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

Malloy Evans
Senior Vice President and
Chief Credit Officer for Single-Family

Attachment

Section of the Announcement	Updated *Selling Guide* Topics
Tax Reform Legislature Policy	▪ B3-3.1-08, Rental Income ▪ B3-3.3-01, General Information on Analyzing Individual Tax Returns ▪ B3-3.4-01, Analyzing Partnership Returns for a Partnership or LLC ▪ B3-3.4-02, Analyzing Returns for an S Corporation ▪ B3-3.4-03, Analyzing Returns for a Corporation
Title Insurer Rating Requirements	▪ B7-2-02, Title Insurer Requirements
Signature Requirement for Initial *Uniform Residential Loan Application* (URLA) (Form 1003)	▪ B1-1-01, Contents of the Application Package ▪ B8-5-05, Requirements for Use of a Power of Attorney
Purchase of Certain LIBOR Adjustable-Rate Mortgage (ARM) Loans	▪ B2-1.3-02, Adjustable-Rate Mortgages (ARMs) ▪ B2-1.4-02, Loan Eligibility