Product Guidelines

FNMA DU REFI PLUS PROGRAM (DU) CONFORMING

PROGRAM CODES: See the Program Codes section

Version 1.5 –03/27/18

RATE/TERM REFINANCE - CONFORMING							
Occupancy		Max Loan Amount	Maximum LTV/CLTV	Min FICO	Max Ratios	Mortgage/Rental History	Reserves
Primary	1 Unit	$453,100	No Limit	No Limit	Evaluated by DU	Evaluated by DU	Evaluated by DU
Primary	1 Unit	$453,100	No Limit	No Limit			
Primary	2 Units	$580,150	No Limit	No Limit			
Primary	2 Units	$580,150	No Limit	No Limit			
Primary	3 Units	$701,250	No Limit	No Limit			
Primary	4 Units	$871,450	No Limit	No Limit			
2nd Homes	1 Unit	$453,100	No Limit	No Limit	Evaluated by DU	Evaluated by DU	Evaluated by DU
Non-Owner	1 Unit	$453,100	No Limit	No Limit	Evaluated by DU	Evaluated by DU	Evaluated by DU
Non-Owner	2 Units	$580,150	No Limit	No Limit			
Non-Owner	3 Units	$701,250	No Limit	No Limit			
Non-Owner	4 Units	$871,450	No Limit	No Limit			

*Must follow MI Guidelines for particular state

**Does not apply to Rate/Term Refinance

Alaska & Hawaii $679,650

Product Guidelines

FNMA DU REFI PLUS PROGRAM (DU) CONFORMING

PROGRAM CODES: See the Program Codes section

Version 1.5 –03/27/18

RATE/TERM REFINANCE – HIGH BALANCE CONFORMING							
Occupancy		Max Loan Amount	Maximum LTV/CLTV	Min FICO	Max Ratios	Mortgage/Rental History	Reserves
Primary	1 Unit	$679,650	No Limit	No Limit	Evaluated by DU	Evaluated by DU	Evaluated by DU
Primary	1 Unit	$679,650	No Limit	No Limit			
Primary	2 Units	$870,225	No Limit	No Limit			
Primary	2 Units	$870,225	No Limit	No Limit			
Primary	3 Units	$1,051,875	No Limit	No Limit			
Primary	4 Units	$1,307,175	No Limit	No Limit			
2nd Homes	1 Unit	$679,650	No Limit	No Limit	Evaluated by DU	Evaluated by DU	Evaluated by DU
Non-Owner	1 Unit	$679,650	No Limit	No Limit	Evaluated by DU	Evaluated by DU	Evaluated by DU
Non-Owner	2 Units	$870,225	No Limit	No Limit			
Non-Owner	3 Units	$1,051,875	No Limit	No Limit			
Non-Owner	4 Units	$1,307,175	No Limit	No Limit			

*** Higher Priced Mortgage Loans (HPML) maximum DTI is 45%.** **Alaska & Hawaii $1,019,475**

MANUFACTURED HOUSING			
Occupancy		**Loan Purpose**	**Max LTV/CLTV/HCLTV**
Primary	1 Unit	Purchase & Rate/Term Refinance	95%
Primary	1 Unit - Max Term ≤ 20 Years	Cash-Out Refinance	65%
2nd Homes	1 Unit	Purchase & Rate/Term Refinance	90%
Non-Owner	Not Permitted		

DU REFI PLUS Underwriting Guidelines Requirements (All loan amounts must be submitted through DU as Refi Plus)	
COLLATERAL	
General	DU Approved/Eligible with the following message from DU: This loan casefile was underwritten according to the DU Refi Plus expanded eligibility guidelines offered on certain limited cash-out refinance loan casefiles where the borrower's existing loan is identified by DU as a Fannie Mae loan. This casefile must be delivered with Special Feature Code 14.7.
Appraisal	Properties with condition rating of C5 or below are not eligible. Full Appraisal required, interior & exterior inspection or follow DU Recommendation below. Transferred or ported appraisals are not permitted. Re-use of an appraisal report is not permitted. Additional state restrictions may apply for loans in KS or WV. Please contact Underwriting for restrictions. HPML loans may require second appraisal. Transferred or ported appraisals are not permitted. Re-use of an appraisal report is not permitted. If the appraisal report is marked "subject-to" a final inspection 1004D will always be required, processor certifications will not be accepted in lieu of.
Second Appraisals	When a new appraisal is obtained we must document the deficiencies that are the basis for ordering the new appraisal and select the most reliable appraisal. We must either document the resolution of the noted deficiencies in the original appraisal or detail the reasons for relying on a second opinion of market value.
Property Fieldwork Waiver	Property Fieldwork Waiver is allowed if offered by DU and credit/property criteria is met. A $75 fee is applied if we exercises the waiver option. The loan must be resubmitted to DU using the estimated value provided by DU. The borrower's estimate of value or any other value obtained for the property may not be used. Property value rep/warrants are waived. It is the borrower’s choice on whether to exercise this option. The bedroom and bathroom count must be listed on the 1008. Excludes 2-4 unit properties for all occupancy types. Property Fieldwork Waiver is NOT allowed if there is any reason to believe that fieldwork is warranted based on additional information about the property OR subsequent events such as natural disaster OR additional information provided by DU regarding the subject property and/or loan.
Condo	Project review is not required. Documentation that project is NOT a condo hotel (Condotel), houseboat, timeshare or segmented ownership is required. Detached Condo: hazard coverage for a single family detached dwelling, and insurance on 100% replacement cost, or $1,000,000 liability coverage. Attached Condo: $1,000,000 liability coverage and insured on 100% replacement cost.

Collateral (continued)	
Ineligible Properties	Co-ops, Land Contracts, On-frame modular construction, Boarding houses, Bed and Breakfast properties, properties that are not suitable for year-round occupancy regardless of location, agricultural properties, such as farms or ranches, properties that are not readily accessible by roads that meet local standards, properties encumbered with Property Assessed Clean Energy (PACE) or Home Energy Renovation Opportunity (HERO) obligations, vacant land or land development properties, properties serviced by hauled water, State-approved medical marijuana producing properties, properties located on Tribal Lands which include section 184, and properties with water sourced by a river are not eligible. See complete ineligible property list in our CONV guidelines.
Resale/Deed Restrictions	Resale/Deed restrictions are not permitted.
Maximum Number of Financed Properties	For second home and investment property transactions - FNMA is the Agency that allows for up to 10 properties (financed means the # of properties not the number of loans on it), FNMA requires a 720 Fico for this feature. DU cannot count the number of properties so the lender must apply the 720 FICO restriction manually to the file.
State Specific Restrictions	New York and West Virginia are not permitted.
Rent Loss Insurance	Required for 2-4 unit primary properties and all 1-4 unit investment properties when rental income from the subject property is used to qualify borrower.

TYPES OF FINANCING	
Rate and Term Refinances only	Loan amount may include payoff 1st Mortgage + closings costs + prepaids + discount points. May not include delinquent taxes & escrow shortages. Cash out is not allowed. If cash back exceeds $250, the lessor of 2% or $2,000 must be applied as principal reduction with no cash back to borrower.
Listed For Sale or Purchase	Properties listed for sale are ineligible for refinance. Property must be taken off the market prior to the loan application date.
Secondary Financing	New subordinate financing is only permitted if it replaces existing subordinate financing. Existing subordinate financing may not be satisfied with the proceeds of the new DU Refi Plus. Existing subordinate financing can remain in place as long as it is resubordinated to the new DU Refi Plus. Existing subordinate financing may be simultaneously refinanced as long as the new subordinate lien loan amount does not exceed the existing unpaid principal balance.
All Refinances	Must have Net Tangible Benefit to Borrower.

CREDIT	
Manual Underwrite	Not permitted. Must receive DU Approve/Eligible
Bankruptcy	Chapter 13: Must be discharged > 2 years prior to application. BK discharge must be > 2 years seasoned. BK dismissal must be >4 years seasoned. Chapter 7: Must be discharged > 4 years prior to application. BK discharge must be > 4 years seasoned. BK dismissal must be > 4 years seasoned. Multiple Bankruptcy filings within past 7 years must be discharged/dismissed > 5 years. Loan MUST receive DU Approve/Eligible recommendation in order to be FNMA eligible. Multiple BK filings - 5 years if more than one filing within the past 7 years ***Chapter 11 > 4 years prior to application***
Bankruptcy (with extenuating circumstances)	BK7 or BK 11: A two-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the discharge or dismissal date of the bankruptcy action. BK13 A two-year waiting period is permitted after a Chapter 13 dismissal, if extenuating circumstances can be documented. There are no exceptions permitted to the two-year waiting period after a Chapter 13 discharge. Loan MUST receive DU Approve/Eligible recommendation in order to be FNMA eligible. Multiple BK filings - 3 years from the most recent discharge or dismissal date.
Short Refinance/Modifications	A borrower who has applied for or received a loan modification is eligible to refinance under DU Refi Plus. Note the following: • The borrower benefit provision (described above) must be met. The terms of the modified loan (trial or permanent) must be used for this comparison. If the borrower was previously in a trial period plan, but denied a permanent modification, the current terms of the loan must be used for this purpose. • The borrower must meet DU's mortgage delinquency policy.
Short Sale/Pre-Foreclosure/Deed in Lieu of Foreclosure	A four-year waiting period is required from the completion date of the deed-in-lieu of foreclosure, preforeclosure sale, or charge-off as reported on the credit report or other documents provided by the borrower. Loan MUST receive DU Approve/Eligible recommendation in order to be FNMA eligible.
Short Sale/Pre-Foreclosure/Deed in Lieu of Foreclosure (with extenuating circumstances)	A two-year waiting period is permitted if extenuating circumstances can be documented. Note: Deeds-in-lieu and preforeclosure sales may not be accurately or consistently reported in the same manner by all creditors or credit reporting agencies. See Identification of Significant Derogatory Credit Events in the Credit Report above for additional information. Loan MUST receive DU Approve/Eligible recommendation in order to be FNMA eligible.
Collections/Charge Offs	Refer to AUS stipulations

Credit (continued)	
Judgments/Liens	Outstanding judgments and liens must be paid at or prior to loan closing. All outstanding debt owed to a state or the IRS for income or property tax must be paid off, at or prior to Closing, regardless of whether or not the debt has become an actual lien. All state and IRS tax liens on the subject property and other properties are required to be paid whether or not they currently affect title. No payment plans or subordination is allowed. Documentation of the satisfaction of these liabilities, along with verification of funds sufficient to satisfy these obligations must be obtained.
Federal Income Tax Installment Agreements	The monthly payment amount may be included as part of the borrower's monthly debt obligations (in lieu of requiring payment in full) if no Federal Tax Lien has been filed against the borrower. Refer to our Conventional FNMA guidelines for additional requirements.
Foreclosure	A seven-year waiting period is required, and is measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower. Loan MUST receive DU Approve/Eligible recommendation in order to be FNMA eligible.
Foreclosure (with extenuating circumstances)	A three-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the completion date of the foreclosure action. Additional requirements apply between three and seven years, which include: Maximum LTV, CLTV, or HCLTV ratios of the lesser of 90% or the maximum LTV, CLTV, or HCLTV ratios for the transaction per the Eligibility Matrix. The purchase of a principal residence is permitted. Limited cash-out refinances are permitted for all occupancy types pursuant to the eligibility requirements in effect at that time. Note: The purchase of second homes or investment properties and cash-out refinances (any occupancy type) are not permitted until a seven-year waiting period has elapsed. Loan MUST receive DU Approve/Eligible recommendation in order to be FNMA eligible.
Minimum FICO	Fannie Mae recommends obtaining at least two credit scores for each borrower.
Debts/Minimum Payment	If the credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%, the lender must use 5% of the outstanding balance as the borrower's recurring monthly debt obligation. For DU loan casefiles, if a revolving debt is provided on the loan application without a monthly payment amount, DU will use the greater of $10 or 5% of the outstanding balance as the monthly payment when calculating the total debt-to-income ratio. For all student loans, whether deferred, in forbearance, or in repayment (not deferred), the lender must use the greater of the following to determine the monthly payment to be used as the borrower's recurring monthly debt obligation: 1% of the outstanding balance; or the actual documented payment (documented in the credit report, in documentation obtained from the student loan lender, or in documentation supplied by the borrower). If the payment currently being made cannot be documented or verified, 1% of the outstanding balance must be used.

Credit (continued)	
30-day Charge Accounts	Open 30–day charge accounts require the balance to be paid in full every month. Fannie Mae does not require open 30–day charge accounts to be included in the debt-to-income ratio.
Mortgage History	Mortgage History evaluated by AUS
Long Term Debts	Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of the borrower's recurring monthly debt obligations. The monthly payment on every revolving and open-end account with a balance must be included in ratio calculation. Accounts cannot be paid down to qualify, installments or Mortgage accounts must be paid in full. Payoff of revolving accounts in order to qualify the borrower is generally not allowed.
Court Ordered Debt	If the obligation to make payments on a debt has been assigned to another person by court order, such as a divorce decree, and transfer of ownership of any related property has taken place, the payment may be excluded from long-term debt. The following documents are required: copy of the court order; and for mortgage debt, a copy of the recorded documents transferring ownership of the property (e.g.: Quit Claim Deed). If a transfer of ownership has not taken place, late payments associated with the loan repayment of the debt owing on the property should be taken into account when reviewing the Borrower’s credit profile.
Non-Occupant Co-borrowers and blended ratios	For DU loan casefiles, if the income of a guarantor, co-signer, or co-borrower is used for qualifying purposes, and that guarantor, co-signer, or co-borrower will not occupy the subject property, the maximum LTV, CLTV, and HCLTV ratio may not exceed 95%. The DTI ratio is calculated using the income and liabilities of all borrowers; there is no separate DTI ratio requirement for the occupant borrower.
Soft pull expiration	120 days lender policy and procedure
Business Debt	If the Borrower is personally liable for a business debt, whether the debt is reflected on the Borrower’s personal credit report or not, the Borrower is personally liable and the debt must be included in the debt-to-income ratios. If the Borrower can provide twelve (12) months’ proof of payment/canceled checks drawn against a business account, this debt need not be included in the debt-to-income ratio.
Contingent Liabilities	A contingent liability may be disregarded if the Borrower provides conclusive evidence from the creditor that there is no possibility that the creditor will pursue debt collection against the Borrower should the other party on the debt default.

Credit (continued)	
Disputed	DU will issue the disputed tradeline message. If it is determined that the disputed tradeline information is accurate and complete, the lender must ensure the disputed tradelines are considered in the credit risk assessment by either obtaining a new credit report with the tradeline no longer reported as disputed and resubmitting the loan casefile to DU. If DU does not issue the disputed tradeline message, the lender is not required to: further investigate the disputed tradeline on the credit report, obtain an updated credit report (with the undisputed tradeline).
INCOME/ASSETS	
Debt Ratios	Per AUS findings, must receive Approve/Eligible.
Residual Income	Residual Income is required on HPML loans only.
Non-Taxable Income	Must verify and document source of income is non-taxable. Documentation includes award letters, policy agreements, account statements or any other documents that address the non-taxable status of the income. All disclosed, non taxable income must be grossed-up even if not being used for qualification.
Rental Income from Other Real Estate Owned	Document Per AUS requirements. Can use 24-month average from Schedule E for calculation. The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the DTI ratio.
Tax Return Transcripts / W2 transcripts	When federal income tax information is used to document income for qualifying purposes, the lender may obtain transcripts of the applicable federal income tax documents directly from the IRS (or designee) by using IRS Form 4506-T. For example, the lender may obtain Tax Return Transcripts for Form 1040, 1040A or 1040EZ or Wage and Income Transcripts for W2s, 1098s, and 1099s. However, in certain instances, copies of the actual returns, schedules, or forms are needed because the tax return transcripts will not provide the detail required to qualify the borrower. For example, the lender must obtain copies of Schedules B through F, Schedule K-1, Form 2106, or business returns.
Long Term Debt	The monthly payment on every revolving and open-end account with a balance must be included in ratio calculation. Accounts cannot be paid down to qualify. Installment or Mortgage accounts must be paid in full. Payoff of revolving accounts in order to qualify the borrower is generally not allowed.
Minimum Reserves	Evaluated by DU. For DU Refi Plus, reserves and assets must be verified to the extent that the DU Underwriting Findings Report requires such verification. Minimum documentation requirements are one month asset statement (monthly, quarterly or annual). Statements do not require analysis for large deposits or proof of liquidation of funds needed to close.

GENERAL	
Mortgage Eligibility	Existing first mortgage must have Fannie Mae as the investor. DU will determine if existing 1st mortgage is eligible. The Existing mortgage must have a note date prior to June 1, 2009 to be eligible for DU Refi Plus. DU Refi Plus mortgage loans must have application dates on or before December 31, 2018. All DU Refi Plus whole loans must be purchased by Fannie Mae on or before September 30, 2019, or must be delivered into MBS pools with issue dates on or before September 1, 2019.
Maximum Loan Amount	See Matrix Above
Maximum Combined Loan Amount	$1 million. Aggregate on all properties with one investor/servicer is $1.5 million or maximum of 4 financed properties with the same investor/servicer - whichever is less.
Age of Documents	Must be <120 days old at time of closing. Appraisal must be <120 days old.
Loan Terms Available	10, 15, 20, & 30 Year Fixed. Note - LTV > 100% must be 20 or 30 year term. High balance must be 15 and 30 year. LTV > 100% and high balance = 30 year term only.
Qualifying Fixed Products	Qualify at Note Rate
Assumptions	Not permitted
High Cost / High Priced Loans (HPML)	High Cost loans are not permitted. High Priced Mortgage Loans (HPML) maximum DTI is 45% and minimum FICO requirement is 620. These requirements must be manually applied.
Borrower Eligibility	Permanent and Non-Permanent Resident Aliens allowed with supporting documentation. Foreign Nationals or borrowers with Diplomatic Immunity are not permitted. Trust Agreements not permitted. Borrowers on the existing note (or current borrowers if the existing mortgage was assumed) must be the same as the borrowers on the new note. An existing borrower may be removed from the transaction provided at least one borrower from the original Note remains on the new loan and deed of title. The borrower removed must also be removed from the deed. A borrower may be added to the new loan, provided the original borrower remains.
Co-Borrowers	Non Occupant Co-Borrowers are permitted with DU approval. Occupant co-borrower must qualify.
Accurate Property Addresses	An accurate property address is critical to determining if the subject property address on the loan casefile matches a subject property address for an existing Fannie Mae loan. Incomplete or inaccurate property address data may prevent a loan casefile from being underwritten according to the DU Refi Plus underwriting flexibilities.

General (continued)	
Escrow Waivers	Escrow waivers are allowed if the current payment does not include taxes and insurance regardless of occupancy type and the new AUS Findings are Approve/Eligible. Primary Residence: eligible when the existing payment is not escrowed or LTV <= 80% and maximum 45% DTI. Properties located in CA with LTV <= 90%. The maximum DTI limit is not applicable in CA. Second Home - eligible when the existing payment is not escrowed or LTV <= 80% and DTI <= 45%. In CA, LTV <= 90%. The maximum DTI limit is not applicable in CA. Investment - eligible when the existing payment is not escrowed or for CA properties, LTV <= 90%. The maximum DTI limit is not applicable in CA. Partial escrows are not permitted.
Prepayment Penalty	Not permitted.
Ineligible Programs	Refi DU, Homestyle/Homepath Renovations, HomeReady Loans, Temp Buydown, Interest Only Loan Programs, and ARM loans.
Short Payoffs	Ineligible. FNMA will NOT accept a refinance transaction where our loan is paying off a Short Payoff.
Removing a Borrower	An existing borrower(s) may be removed from the new loan provided that at least one of the original borrower(s) is retained on the new loan.
Adding a Borrower	Borrower(s) may be added to the new loan, provided the existing borrower(s) is retained.
DU Refi Eligible TX A6	All Texas Section 50(a)(6) mortgage requirements apply, including the following, which may be different than the standard DU Refi Plus requirements: maximum 80% LTV and CLTV ratio; minimum 12 months seasoning; one-unit principal residences only; a new full appraisal is required; title insurance requirements for Texas Section 50(a)(6) loans must be met. If the existing loan was originated as a Texas Section 50(a)(6) loan, and if the new DU Refi Plus loan will be a Texas Section 50(a)(6) loan, then the new DU Refi Plus loan must meet the most restrictive of the Texas Section 50(a)(6) loan requirements, per the Selling Guide or the DU Refi Plus requirements, as applicable. The only exceptions to this requirement are that a minimum credit score does not apply (unless the monthly principal and interest payment is increasing more than 20%) and the DU Refi Plus loan-level price adjustments are applicable.
High Balance Loans	The eligibility parameters for DU Refi Plus supersede those for the high-balance feature. The new loan may have a high-balance feature, subject to current loan limits.

General (continued)

Mortgage Insurance	Borrower paid primary MI or Lender-paid primary MI.

Original Loan LTV Ratio	Existing MI Coverage	MI Coverage for New Loan
80% or less	None	Not required
Over 80%	None (previously canceled or terminated per *Selling and Servicing Guide* requirements).	Not required
	Yes	The level of coverage in force on the existing loan or standard coverage in accordance with the *Selling Guide*.

*Lenders are encouraged to use their best efforts to obtain MI coverage that provides the lowest-cost MI option available to the borrower.

Program Codes

30 Year Fixed	
Program Code	**LTV**
C30FP80	Up to 80.00
C30FP105	80.01-100.00
C30FP125	100.01-125.00
C30FP135	125.01-135.00
H30FP80	Up to 80.00
H30FP105	80.01-100.00
H30FP125	100.01-125.00
H30FP135	125.01-135.00

15 Year Fixed	
Program Code	**LTV**
C15FP80	Up to 80.00
C15FP105	80.01-100.00
H15FP80	Up to 80.00
H15FP105	80.01-100.00

20 Year Fixed	
Program Code	**LTV**
C20FP80	Up to 80.00
C20FP105	80.01-100.00
C20FP125	100.01-125.00
C20FP135	125.01-135.00

10 Year Fixed	
Program Code	**LTV**
C10FP80	Up to 80.00
C10FP105	80.01-100.00

Fannie Mae®

High Loan-to-Value Refinance Option

The high loan-to-value (LTV) refinance option will provide refinance opportunities to borrowers with existing Fannie Mae mortgages who are making their mortgage payments on time but whose LTV ratio for a new mortgage exceeds the maximum allowed for standard refinance products in the *Selling Guide*.

The high LTV refi option is scheduled to be available for refinance applications received in late 2018. It will replace DU Refi Plus™ (and Refi Plus™ with manual underwriting), which will be retired in accordance with the Home Affordable Refinance Program® (HARP®) end date of December 31, 2018.

> NOTE: *This fact sheet provides a preliminary, high-level overview of the high LTV refi option. For details, refer to Lender Letter LL-2017-05 High Loan-to-Value Refinance Option.*

Borrower Benefit

Borrowers **must** benefit from the refinance in **at least one** of the following ways:

- Reduced monthly principal and interest payment.
- Lower interest rate.
- Shorter amortization term.
- More stable mortgage product, such as moving from an adjustable-rate mortgage to a fixed-rate mortgage.

Eligibility

- Only an existing Fannie Mae mortgage may be refinanced to a new Fannie Mae mortgage.
- The Note Date of the mortgage being refinanced must be on or after October 1, 2017.
- The LTV for the new mortgage exceeds 95% for a one-unit principal residence or exceeds the maximum allowable LTV ratio for a limited cash-out refinance for other segments as listed in the *Eligibility Matrix*.
- At least 15 months have passed between the Note Date of the mortgage being refinanced and the Note Date of the high LTV refi mortgage.
- Borrowers must be current with their payments and have:
  - No 30-day delinquencies in the most recent six months, and
  - No more than one 30-day delinquency in the past 12 months.
- The mortgage being refinanced must not have been previously delivered as a Fannie Mae Refi Plus (Desktop Underwriter® [DU®] or manual) mortgage.

Borrowers can refinance using the high LTV refinance option more than once as long as all other requirements, including seasoning, are met.

Features

- **Mortgage insurance** (MI) must be transferred to the new loan. If MI is not in place for the loan being refinanced, it is not required for the new loan if all other eligibility requirements are met.
- **Simplified documentation requirements** for employment, income, and assets.
- **Both DU and manual underwriting options** are available to the same or a new servicer. Manual underwriting may be necessary in certain scenarios.

Lender Letter LL-2017-05

September 08, 2017

To: All Fannie Mae Single-Family Sellers
High Loan-to-Value Refinance Option

At the direction of the Federal Housing Finance Agency (FHFA), Fannie Mae will offer a new high loan-to-value (LTV) refinance option designed for Fannie Mae borrowers who are making their mortgage payments on time, but whose LTV ratios exceed the maximum allowed for standard limited cash-out refinance transactions in the *Selling Guide.* This option will not be available for a number of months, but we are sharing the details with lenders now to allow time for any needed operational and system updates. The *Selling Guide* will be updated with these requirements next year, closer to the time when lenders can begin originating these high LTV refinances.

Extension of DU Refi Plus™ and Refi Plus™

FHFA recently announced the extension of the Home Affordable Refinance Program (HARP). As a result, we are extending the expiration date of DU Refi Plus and Refi Plus. Lenders may continue to originate loans with application dates up to and including December 31, 2018. All whole loans must be purchased by us on or before September 30, 2019, or included in MBS pools with issue dates on or before September 1, 2019.

High LTV Refinance Requirements

The following tables describe all of the requirements of the existing loan being refinanced and the new loan that will be originated under the high LTV refinance option.

Requirements for the Existing Loan Being Refinanced	
Eligible Existing Loans	▪ The loan must be a first-lien, conventional mortgage loan, owned or securitized by Fannie Mae. ▪ The loan must have a note date on or after October 1, 2017. ▪ Loans that are part of a risk-sharing structure (for example, credit risk transfers) are eligible to be refinanced.
Servicer	The current servicer or a new servicer may refinance the existing loan.
Previously-Modified Mortgages	Borrowers who have applied for or received a modification are eligible provided ▪ the borrower benefit provision is met using the prevailing payment, and ▪ the payment history requirement is met.
Seasoning	At least 15 months have passed from the note date of the existing loan to the note date of the new loan. (For example, if the note date on the existing loan is January 1, 2018, the note date on the new loan can be no earlier than April 1, 2019.)

Ineligible Existing Loans	The following loans are ineligible to be refinanced: ▪ existing DU Refi Plus™ or Refi Plus™ loans; ▪ loans that are subject to outstanding repurchase demands; or ▪ loans that are subject to recourse, repurchase agreement, indemnification, or another negotiated credit enhancement required at origination for eligibility purposes are not eligible, unless • the new loan is also subject to a credit enhancement that meets eligibility requirements, or • such credit enhancement is not required for eligibility purposes on the new loan.
Requirements for the New Loan	
New Loan Requirements	▪ The new loan must have an application date on or after November 1, 2018. ▪ A new executed *Uniform Residential Loan Application* (Form 1003/1003(S)) is required from the borrower(s) with all information completed, including borrower income, employment, and assets. ▪ The new loan must be either: • a fixed-rate loan (existing loan may be fixed-rate or ARM); or • an ARM that refinances an existing ARM, with the new ARM having a minimum five-year fixed rate term. ▪ The term of the new loan may not exceed 30 years. ▪ The new loan must meet current general or high-balance loan limits, as applicable, at the time of loan delivery. ▪ The new loan cannot be originated pursuant to Section 50(a)(6) of Article XVI of the Texas Constitution. ▪ Temporary interest rate buydowns are not allowed. ▪ The new loan amount is limited to • the payoff of the unpaid principal balance (UPB) of the existing first mortgage loan being refinanced (including accrued interest); • the financing of closing costs, prepaid items, and points (up to $5,000 total) for the new loan; and • cash back to the borrower up to $250. (Excess proceeds may be applied as a curtailment on the new loan.) ▪ Lenders may provide an incentive to the borrower in the form of a payment to pay off a portion of the existing loan being refinanced. • Any such reduction of the existing loan balance will impact the LTV ratio as it is applied to the calculation of the new loan amount. (Lenders should be careful in that incentives have the potential to reduce the LTV ratio to below the minimum allowable for this program.)

<table>
<tr><td></td><td>

- Lenders are not required to evaluate borrower creditworthiness except for the requirements specifically stated in this Lender Letter.

</td></tr>
<tr><td>Minimum LTV Ratio</td><td>
For the new loan to be eligible, the following minimum LTV ratios are currently required for both fixed-rate and adjustable-rate mortgage (ARM) loans:
<table>
<tr><th>Occupancy Type</th><th>Units</th><th>Minimum LTV</th></tr>
<tr><td rowspan="3">Principal Residence</td><td>1</td><td>95.01%</td></tr>
<tr><td>2</td><td>85.01%</td></tr>
<tr><td>3-4</td><td>75.01%</td></tr>
<tr><td>Second Home</td><td>1</td><td>90.01%</td></tr>
<tr><td>Investment Property</td><td>1-4</td><td>75.01%</td></tr>
</table>

> NOTE: *The loan being refinanced and the new loan do not have to represent the same occupancy. The occupancy of the subject property may have changed by the time of the high LTV refinance transaction.*

</td></tr>
<tr><td>Maximum LTV Ratio</td><td>

- No maximum LTV, CLTV, or HCLTV ratios for fixed-rate loans.
- 105% maximum LTV ratio for ARM loans, but no maximum CLTV or HCLTV ratio.

</td></tr>
<tr><td>Underwriting Methods</td><td>

- Except for the Alternative Qualification Path, which requires manual underwriting, high LTV refinance loans may be underwritten using Desktop Underwriter® (DU®) or manually.
- DU will determine if the borrower(s) and subject property address on the loan casefile match an existing eligible Fannie Mae loan.
- For manually underwritten loans the lender must determine that all eligibility requirements are met.

</td></tr>
<tr><td>Benefit to Borrower</td><td>
The new loan must provide a benefit to the borrower in the form of at least one of the following:

- a lower principal and interest (P&I) payment;
- a lower interest rate;
- shorter amortization term; or
- movement to a more stable product (for example, from an ARM or a step-rate modification to a fixed-rate loan).

</td></tr>
</table>

Borrower Eligibility	▪ Generally, the borrower(s) on the loan being refinanced (or the current borrower(s) if the existing loan was assumed) must be identical to the borrower(s) on the new loan. However, an existing borrower may be excluded from the new loan for either of the following: • the remaining borrower(s) meets the mortgage payment history requirements and provides evidence that they have been making the payments on the existing loan from their own funds for the most recent 12 months prior to the application of the new loan, or • due to the death of a borrower. Evidence of the deceased borrower's death must be documented in the loan file. If this criteria cannot be met, the new loan must be underwritten in accordance with the Alternative Qualification Path (see below). ▪ Borrower(s) may not be added to the new loan. ▪ If the loan being refinanced was assumed by the current borrower(s) prior to the refinance of the new loan, the current borrowers must have been qualified for the existing loan per the *Servicing Guide*.
Eligible Subordinate Financing	▪ New subordinate financing is only permitted if it replaces existing subordinate financing. ▪ Existing subordinate financing • may not be satisfied with the proceeds of the new loan, • can remain in place as long as it is resubordinated to the new loan, and • may be simultaneously refinanced as long as the new subordinate lien loan amount does not exceed the existing UPB. ▪ Other standard subordinate financing requirements will not apply. NOTE: *Although standard Fannie Mae policy prohibits subordinate financing on co-op share loans, an exception is permitted for high LTV refinance loans as long as the existing subordinate lien is subordinate to the new co-op share loan.*
Underwriting and Documentation Requirements for the New Loan	
Payment History Requirement	On the loan being refinanced, the borrower cannot have had ▪ any 30-day mortgage delinquencies in the most recent six-month period, and ▪ no more than one 30-day delinquency in months 7 through 12.
Minimum Credit Score	▪ There is not a minimum credit score requirement except for loans underwritten under the Alternative Qualification Path. ▪ A new credit report is required in accordance with standard *Selling Guide* requirements for payment history and pricing purposes.
Maximum Debt-to-Income Ratio	▪ There is not a maximum debt-to-income ratio except for loans underwritten under the Alternative Qualification Path.

Significant Derogatory Credit Events	▪ Lenders are not required to comply with the waiting period and re-establishment of credit requirements for significant derogatory credit events or the payoff or satisfaction of a judgment identified on the credit report. ▪ Lenders are not required to review or consider Form 1003 (or 1003(S)) VIII, Declarations (a through f) in the underwriting evaluation.
Employment and Income Verification	▪ The lender must obtain one of the following: • a verbal verification of employment for employment or self-employment income for at least one borrower, • documentation of a non-employment income source, or • documentation of liquid financial reserves equal to 12 months of the new monthly housing payment. ▪ Lenders are not required to assess continuity of income. ▪ Lenders are not required to verify income amount or calculate the debt-to-income ratio except for loans underwritten under the Alternative Qualification Path.
Asset Verification	Assets do not need to be verified except for loans underwritten under the Alternative Qualification Path where applicable.
Multiple Financed Properties	There are no limits on the number of financed properties the borrower may own.
Property Listing Requirements	The lender does not need to confirm the subject property is not listed for sale.
Collateral Requirements for the New Loan	
Valuation	▪ For certain loan casefiles, DU will offer a property inspection waiver (PIW) – an option to waive the appraisal requirement. Otherwise, an appraisal with an interior and exterior inspection will be required. If an appraisal is obtained, it must be used for valuation even if a waiver is offered by DU. Lenders exercising the PIW must deliver Special Feature Code 807. • When the lender is required by law to obtain an appraisal, the lender must comply with such requirements, but may still exercise the PIW. ▪ For manually underwritten loans, an appraisal with an interior and exterior inspection will be required.
Property Type	All Fannie Mae-eligible property types are permitted.
Condo, Co-op, and PUD Projects	▪ The project must not be a condo or co-op hotel or motel, houseboat project, or a timeshare or segmented ownership project. The lender is not required to perform any additional review of the project. ▪ Confirmation of property, flood, and liability insurance coverage is required.

Properties Affected by a Disaster	Repairs to a property damaged as the result of a disaster (as defined by the *Selling Guide*) will not be required prior to delivery as long as the loan meets the applicable property insurance requirements. An additional inspection and/or new appraisal of the property is not necessary after a disaster.
Leasehold Estates Eligibility	The term of the leasehold must run for at least five years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower. The lender is not required to perform any additional review of the leasehold terms.
Alternative Qualification Path for the New Loan	
Potential Material Change in Credit Risk or Higher-Priced Mortgage Loans	If any of the following apply to the new loan, the loan must conform to the Alternative Qualification Path requirements described below: ▪ the P&I payment increases by more than 20% based on the current P&I payment; ▪ a borrower on the loan being refinanced is being excluded from the new loan other than due to death, and the remaining borrower(s) cannot evidence making payments on their own for the prior 12 months; or ▪ the loan is a higher-priced mortgage loan or a higher-priced covered transaction under Regulation Z. NOTE: *Lenders must manually determine whether the loan being refinanced is a higher-priced loan or a higher-priced covered transaction under Regulation Z because DU cannot do so.*
Eligibility and Underwriting Criteria	Unless otherwise stated, all of the requirements in this Lender Letter apply to loans originated in accordance with the Alternative Qualification Path. In addition, these loans must have: ▪ a minimum credit score of 620, ▪ a maximum debt-to-income ratio of 45%, and ▪ verified assets needed to close, when applicable. See the Attachment for income and asset documentation requirements.
Underwriting Method	Manual underwriting is required.

Mortgage Insurance	
Mortgage Insurance Coverage Requirements	▪ If the loan being refinanced does not have mortgage insurance, mortgage insurance will not be required on the new loan. ▪ If the loan being refinanced has existing mortgage insurance, the existing mortgage insurance coverage must be continued on the new loan. To accomplish this, the mortgage insurer will modify the existing mortgage insurance certificate and transfer it to the new loan. Such transfer may or may not include assignment of a new mortgage insurance certificate number. Lenders should check with the mortgage insurer for specific requirements.
Financed Mortgage Insurance	Existing loans with financed mortgage insurance are eligible for high LTV refinance loans. There should be no difference in how coverage is continued on the refinance of such loans versus existing loans that do not have financed mortgage insurance. The existing coverage can be continued on the new loan regardless of whether the financed premium on the existing loan was paid as a single premium or a split premium. Lenders should check with the mortgage insurer for specific requirements.
Life Of Coverage	For high LTV refinance loans, mortgage insurance coverage must extend for the life of the new loan, or until cancellation or termination of coverage as required by law or Fannie Mae guidelines. For example, even if a 15-year loan that is 3 years old is refinanced into a 30-year loan, the mortgage insurance coverage should be extended for the full life of the new loan.
Cost to Transfer Certificate	A mortgage insurance company may charge a reasonable fee to transfer the certificate, and Fannie Mae permits such cost to be rolled into the unpaid principal balance of the new loan as a closing cost as long as the loan will still comply with Fannie Mae's and the mortgage insurance company's guidelines.
Loan Delivery Requirements	
Loan Delivery Application	▪ If the high LTV refinance loan was underwritten under the standard guidelines described above, the lender must provide the following data in the Loan Delivery application: • HighLTVRefi as the enumeration for RefinanceProgramIdentifier when importing a loan delivery XML file, or • High LTV Refi as the Refi Program ID when manually entering loan data in Loan Delivery. ▪ If the high LTV refinance loan was underwritten using the Alternative Qualification Path, the lender must provide the following: • HighLTVRefi as the enumeration for RefinanceProgramIdentifier and 840 as the value for InvestorFeatureIdentifier when importing a loan delivery XML file, or • High LTV Refi as the Refi Program ID and Special Feature Code 840 when manually entering loan data in Loan Delivery.

	NOTE: *The new HighLTVRefi enumeration will be added to Loan Delivery and additional guidance will be provided in the coming months.*
MBS Pool Prefixes	MBS deliveries of loans refinanced under this new option will be eligible for securitization utilizing existing Fannie Mae pool prefixes.
Pooling Loans with LTV Ratios Above 105%	High LTV refinance loans with LTV ratios above 105% cannot be included in TBA-eligible MBS but must be included in pools specifically created for loans with LTV ratios above 105%. Furthermore, lenders may be able to deliver high LTV refinance loans with LTV ratios above 105% into the respective Fannie Majors pool specifically available for these loans. Due to the separate pool prefixes required for loans with LTV ratios above 105%, these loans may not be delivered into standard TBA-eligible Fannie Majors pools.
Whole Loan Committing of Loans with LTV Ratios Above 105%	Separate committing will be required for high LTV refinance loans with LTV ratios above 105% — loans may not be delivered against standard whole loan commitments. Specific “High LTV Refi” products will be available in Fannie Mae’s whole loan committing application.
Solicitation	
Practices	Lenders may not solicit Fannie Mae loans for refinancing except in accordance with standard requirements per the *Selling Guide* B2-1.2-04, Prohibited Refinancing Practices.
Pricing	
Pricing	Fannie Mae will publish an updated Loan-Level Price Adjustment Matrix at a future date.

<table>
<tr><th colspan="3">Representations and Warranties</th></tr>
<tr><td rowspan="5">Limited Liabilities</td><td colspan="2">The representations and warranties will be consistent with current requirements for DU Refi Plus and Refi Plus loans. The following highlights a number of those key provisions.</td></tr>
<tr><th>DU</th><th>Manual Underwriting</th></tr>
<tr><td>

- The lender is not responsible for any of the representations and warranties associated with the loan being refinanced.
- The lender is relieved of the standard underwriting representations and warranties (eligibility, credit history, liabilities, income and asset assessment) with respect to the new loan if the lender meets all of the following:
  - All data in the loan casefile is complete, accurate, and not fraudulent.
  - The lender follows the instructions in the DU Underwriting Findings report regarding income, employment, asset, and fieldwork documentation.
  - The lender complies with all other requirements documented in *Selling Guide* A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU.

</td><td>

- The lender is not responsible for any of the representations and warranties associated with the loan being refinanced with the following exception:
  - The lender must represent and warrant that the existing loan is eligible for refinancing under this option (for example, the existing loan was not a Refi Plus loan).
- The lender must represent and warrant that the new loan
  - meets all the requirements of the high LTV refinance option as described above (as updated in the related future *Selling Guide* update), and
  - is originated in compliance with laws.

</td></tr>
<tr><td colspan="2">The lender is relieved of the representations and warranties on the value, marketability, or condition of the subject property (however, if an appraisal is obtained, the lender remains responsible for the appraisal only as it relates to value).</td></tr>
<tr><td colspan="2">The lender is not responsible for standard representations and warranties related to the project eligibility with the exception that the lender must represent and warrant that the property is not a condo or co-op hotel or motel, houseboat project, or a timeshare or segmented ownership project.</td></tr>
</table>

<table>
<tr><td>Applicability of Representations and Warrant Framework</td><td>The representation and warranties framework will be consistent with current requirements for DU Refi Plus and Refi Plus loans (Selling Guide, A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility).
<table>
<tr><th colspan="2">Representations and Warranties Framework
Relief Criteria</th></tr>
<tr><td>Number of required consecutive monthly payments</td><td>12</td></tr>
<tr><td>Number of delinquencies permitted during first 12 monthly payments after Fannie Mae acquisition in order to be eligible for relief after the 12th monthly payment</td><td>0 x 30</td></tr>
<tr><td>Opportunity to re-establish acceptable payment history if there were delinquencies in the first 12 monthly payments after Fannie Mae acquisition?</td><td>Yes, as of the 36th monthly payment, provided no more than 2 x 30 delinquencies in first 36 monthly payments and 36th monthly payment is not delinquent</td></tr>
<tr><td>Eligible for relief after satisfactory conclusion of quality control review?</td><td>Yes</td></tr>
</table></td></tr>
<tr><th colspan="2">Additional Information</th></tr>
<tr><td>Expiration</td><td>There is no expiration date for this refinance option.</td></tr>
</table>

*****

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

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

Attachment

Alternative Qualification Path – Documentation Requirements	
Income Type and Eligible Income Sources	**Documentation Requirements**
All Employment Income	Verbal verification of employment (See B3-3.1-07, Verbal Verification of Employment, for additional requirements.) NOTE: *Each borrower must complete and sign a separate IRS Form 4506-T at or before closing.*
Base Pay (salary or hourly) **Tip, Bonus, and Overtime Income**	One paystub or a completed *Request for Verification of Employment* (Form 1005 or Form 1005(S)). Applies to primary employment, secondary employment (second job and multiple jobs), and seasonal income.
Commission Income	One paystub or Form 1005 or Form 1005(S) or one year personal tax return. Applies without regard to the percentage of commission earnings.
Military Income	A military Leave and Earnings Statement or a verification of employment.
Self-Employment	One year personal tax return. Applies to primary and secondary self-employment.
Alimony or Child Support	Copy of divorce decree, separation agreement, court order or equivalent documentation, and one month documentation of receipt.
Employment-Related Assets as Qualifying Income	Lender must obtain standard documentation for this type of income as described in B3-3.1-09, Other Sources of Income.
Rental Income	Lease or one year personal tax return (Form 1007 is not required). Applies to rental income from subject property or from other properties owned by the borrower.
Retirement and Pension	One of the following: ▪ award letter, ▪ one year personal tax return, ▪ W-2 or 1099 form, or ▪ one month bank statement reflecting direct deposit.

Alternative Qualification Path – Documentation Requirements	
Social Security	One of the following: ▪ award letter, ▪ one year personal tax return, ▪ Form SSA-1099, or ▪ one month bank statement reflecting direct deposit.
Temporary Leave Income	Lender must receive: ▪ the borrower's written confirmation of his or her intent to return to work, and ▪ no evidence or information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period. Regardless of the date of return, the amount of the "regular employment income" the borrower received prior to the temporary leave must be used to qualify.
All Other Income Types	**Documentation Requirements**
▪ Automobile Allowance ▪ Boarder Income ▪ Capital Gains Income ▪ Disability Income – Long-Term ▪ Employment Offers or Contracts ▪ Foreign Income ▪ Foster-Care Income ▪ Housing or Parsonage Income ▪ Interest and Dividends Income ▪ Mortgage Credit Certificates ▪ Mortgage Differential Payments Income ▪ Non-Occupant Borrower Income ▪ Notes Receivable Income ▪ Public Assistance Income ▪ Royalty Payment Income ▪ Schedule K-1 Income ▪ Trust Income ▪ Unemployment Benefits (seasonal or non-seasonal in nature) ▪ VA Benefits Income	Lender must determine appropriate documentation. Examples include (but are not limited to): ▪ an award letter or equivalent documentation or agreement, ▪ one paystub or equivalent documentation, ▪ one year personal tax return, ▪ IRS 1099 Form, or ▪ one month bank statement reflecting direct deposit.

Asset Type	Documentation Requirements
▪ Checking Accounts ▪ Savings Accounts ▪ Certificates of Deposit ▪ Money Mark Accounts ▪ Stocks, Bonds, Mutual Funds ▪ Retirement Accounts ▪ Trust Accounts ▪ Secured Borrowed Funds ▪ Donations from Entities (Hardest Hit Fund) ▪ Gifts	One recent statement (monthly, quarterly, or annual) showing asset balance