CLIENT ALERT
Fannie Mae Selling Guide Update June 2015

Date: July 29, 2015

Impacted Channels: Wholesale, Correspondent

Fannie Mae updated its *Selling Guide* June 30, 2015 to include a number of key policy changes to simplify Fannie Mae requirements, result in less documentation for borrowers, and make it easier to do business with Fannie Mae.

Note that Desktop Underwriter (DU) will be updated the weekend of August 15, 2015, to reflect these policy changes. A separate Alert will be issued to describe DU updates.

The following updates are **effective immediately**:

Update	Description	Selling Guide Sections
Removal of conversion of principal residence policy	Fannie Mae removed reserve and minimum equity requirements for transactions where the borrower's existing home is either on the market but has not sold as of the date of loan closing, or is being converted from the borrower's principal residence into an investment property or second home.	• B3-4.1-01: Minimum Reserve Requirements • B3-6-06: Qualifying Impact of Other Real Estate Owned
Tip income	• Fannie Mae allows tip income to be included in qualifying income if the Underwriter can verify that the borrower received the income for the last two years. • The Underwriter can verify tip income using a Request for Verification of Employment (Form 1005 or Form 1005 (S)), or recent paystubs and IRS W-2 forms. • In some cases, the employer may not report the full amount of the tip income earned by the borrower on Form 1005, paystub and W-2 form. However, the borrower may report additional tip income to the IRS using Form 4137, Social Security and Medicare Tax on Unreported Tip Income, when filing his or her tax returns. Fannie Mae now allows this tip income to be used in qualifying if the Underwriter obtains the most recent two years of federal income tax returns with Form 4137.	• B3-3.1-01: General Income Information • B3-3.1-09: Other Sources of Income

Update	Description	Selling Guide Sections
Unreimbursed employee business expenses	For a borrower who is qualified using base pay, bonus, overtime, or commission income less than 25% of the borrower's annual employment income: • Underwriters are not required to analyze or deduct unreimbursed employee business expenses from the borrower's qualifying income, or added to monthly liabilities. This applies regardless of whether unreimbursed employee business expenses are identified on tax returns (IRS Form 2106) or tax transcripts received from the IRS. • Union dues and other voluntary deductions identified on the borrower's paystub do not need to be deducted from the borrower's income or treated as a liability. • The *Selling Guide* now clearly states that tax returns are not required to document these sources of income. For borrowers earning commission income that is 25% or more of annual employment income, the Underwriter must deduct unreimbursed employee business expenses from gross commission income regardless of the length of time that the borrower has filed that expense with the IRS. The exception to this is if the expense is an actual automobile lease or loan payment. If borrowers report an automobile allowance as part of their monthly qualifying income, the Underwriter must determine if the automobile expenses reported on IRS Form 2106 should be deducted from income or treated as a liability. The *Selling Guide* describes how the Underwriter makes this determination.	• B3-3.1-04: Commission Income • B3-3.2.1-03: Deductions Reported on IRS Form 2106 • B3-6-01: General Information on Liabilities • B3-6-05: Monthly Debt Obligations
Verification of stocks, bonds, and mutual funds	Fannie Mae updated policies for the use of vested stocks, bonds, and mutual funds (including retirement accounts) when the borrower uses them for down payment, closing costs, and reserves. Instead of requiring a standard reduction in value: • 100% of the value of the asset is allowed when determining available reserves. • If the Underwriter documents that the value of the asset is at least 20% more than the funds needed for the borrower's down payment and closing costs, no documentation of liquidation is required. Otherwise, the Underwriter must obtain documentation of the borrower's actual receipt of funds realized from the sale or liquidation. Remember that non-vested assets are not eligible for down payment, closing costs, or reserves.	• B3-4.1-01: Minimum Reserve Requirements • B3-4.3-01: Stocks, Stock Options, Bonds, and Mutual Funds • B3-4.3-03: Retirement Accounts
W-2 transcripts in lieu of W-2s, and Form 1005 or 1005(S)	• When Underwriters verify employment income for borrowers whose income is used to qualify for the mortgage loan, borrower-provided paystubs and IRS W-2 forms can be used to document the income. In lieu of W-2 forms, other documentation options are a Request for Verification of Employment (Form 1005 or Form 1005 (S)) or the final year-to-date paystub. • Because some of the fields in Form 1005/1005(S) are not typically provided by employers, the Selling Guide now lists the fields that are optional and do not need to be completed. • Fannie Mae also now permits an IRS "Wage and Income Transcript" (W-2 transcript) in lieu of the actual W-2 forms.	• B3-3.1-02: Standards for Employment Documentation • B3-3.1-06: Requirements and Uses of IRS Form 4506-T

Kinecta may implement the following update immediately. It must be implemented for all mortgage loans certified by Fannie Mae on and after October 1, 2015.

Description	Selling Guide Section
• Fannie Mae currently requires lenders to provide the Fannie Mae loan number for every mortgage loan to their mortgage loan servicers; however, lenders have not been required to provide those loan numbers to document custodians. • The *Selling Guide* has been updated to require lenders to ensure that the document custodian receives, within 30 days of loan certification, the Fannie Mae loan number for every mortgage loan for which the document custodian provides custodial services and respond, within 3 business days, to any request from the document custodian for the Fannie Mae loan number. Document custodians are required to have a process in place to obtain and retain the Fannie Mae loan number from lenders for every loan for which they provide custodial services, and be able to perform reconciliations using the Fannie Mae loan number.	C1-2-02: Loan Data and Documentation Delivery Requirements

The following update applies when the upcoming TILA-RESPA Integrated Disclosures (TRID) rule goes into effect.

Description	Selling Guide Sections
• Fannie will not require borrower or seller signatures on the Closing Disclosure. However, Fannie recommends that lenders obtain these signatures as a best practice. • If there are separate Closing Disclosures for the borrower and seller, Kinecta must retain copies of each in the mortgage loan file. • Kinecta must use the version of the Closing Disclosure that is applicable to the transaction; for example, the Kinecta may not use the purchase version of the form for a refinance transaction. • The requirement for a separate escrow waiver disclosure has been removed from the Selling Guide because a similar disclosure is now part of the Closing Disclosure.	• A2-5.1-02: Individual Mortgage Loan Files • B2-1.4-04: Escrow Accounts • See Selling Guide Announcement SEL-2015-07 for a full list of impacted sections.

The following update applies when the Official Commentary to 12 CFR 1026.03 goes into effect.

Description	Selling Guide Section
Pending changes to the Official Commentary to 12 CFR 1026.03 will treat non-investment property loans made to estate planning trusts (such as inter vivos trusts) as consumer credit, making these trusts subject to the Truth in Lending Act. References to inter vivos trusts in the *Selling Guide* section are modified to support this change.	B2-1.4-02: Mortgage Loan Eligibility

Contact your Account Executive if you have any questions.