



Announcement 08-03

March 5, 2008

Amends these Guides: Selling

Updates and Clarifications for Streamlined Refinance Products

With this Announcement, Fannie Mae is updating the eligibility guidelines for its streamlined refinance products, as outlined in Announcement 07-24, *Enhancements to Streamlined Refinance Products* published December 7, 2007. This update includes additional eligibility criteria for streamlined refinance transactions of mortgage loans currently serviced on behalf of Fannie Mae and underwritten to Fannie Mae standards (Fannie Mae to Fannie Mae Streamlined Refinance - Option A).

Additional Eligibility Option for Fannie Mae to Fannie Mae Streamlined Refinance Transactions - Option A Select

In an effort to provide additional refinance opportunities for borrowers whose existing mortgage is currently serviced on behalf of Fannie Mae, we are announcing additional eligibility criteria for borrowers under Option A, referred to as Option A Select:

- The existing mortgage may be seasoned for less than 12 months.
- The existing mortgage may have one 30-day delinquency in the lesser of the life of the loan, or 12 payments, provided the delinquency did not occur within the three payments prior to the date of the *Uniform Residential Loan Application* (Form 1003) executed in connection with the new mortgage.

In order to be eligible for Option A Select, all of the following requirements must be met:

- *Loan Purpose.* The new mortgage must be a limited cash-out refinance transaction. Cash-out refinance transactions are not permitted.

- *Monthly Principal and Interest Payment Limitations.* The monthly principal and interest payment on the new mortgage may not exceed by more than 20 percent the Qualifying Payment calculated in accordance with the requirements of Announcement 07-24.
- *Eligible Option A Select Mortgage Products.* The new mortgage is restricted to the following products:
 - a fully amortizing fixed-rate mortgage (FRM), or
 - a fully amortizing adjustable-rate mortgage (ARM) with an initial fixed period of five years or greater.
- *Ineligible Option A Select Mortgage Products.* The new mortgage may not be a(an):
 - mortgage loan with an interest only feature,
 - balloon mortgage,
 - ARM with an initial fixed period of less than five years,
 - ARM with potential for negative amortization,
 - MyCommunityMortgage[®] loan, or
 - Texas 50(a)(6) mortgage.
- *Occupancy.* The property must be the borrower's principal residence or second home. Investment properties are not eligible.

All other requirements of Announcement 07-24 not specifically modified in this Announcement will continue to apply. In addition, borrowers may continue to obtain financing under the existing Option A eligibility, which permits a 50 percent increase in the Qualifying Payment (as defined in Announcement 07-24) for mortgage loans with 12 months seasoning and a clean payment history for the preceding 12 months. In addition, Option A allows for cash-out refinance transactions and transactions secured by investment properties.

A new special feature code is not required for Option A Select. Lenders must identify both Option A and Option A Select mortgages at loan delivery by submitting special feature code 288.

Attachment 1, originally included with Announcement 07-24, is a revised chart which now includes the new Option A Select criteria. Attachment 2 is a new chart that outlines the maximum allowable Loan-to-Value Ratios permitted for Option A Select mortgage loans.

Effective Date

Option A Select is available immediately for both whole loan and MBS deliveries.

Lenders who have questions about Announcement 08-03 should contact their Customer Account Team.

Michael A. Quinn
Senior Vice President
Single-Family Risk Officer

Attachment 1

Specific Eligibility Criteria Applicable to Streamlined Refinance Mortgages

	Option A Fannie Mae to Fannie Mae	Option A Select Fannie Mae to Fannie Mae	Option B GSE to Fannie Mae
Eligible Existing Mortgage Loans	<ul style="list-style-type: none"> • Mortgage loans currently serviced on behalf of Fannie Mae • Fully documented mortgage loans underwritten and originated in accordance with Fannie Mae’s <i>Selling Guide</i>, or the <i>Guide to Underwriting with DU</i>[®], (including MyCommunityMortgage[®] (MCM[®]) loans) 	<ul style="list-style-type: none"> • Mortgage loans currently serviced on behalf of Fannie Mae • Fully documented mortgage loans underwritten and originated in accordance with the <i>Selling Guide</i>, or the <i>Guide to Underwriting with DU</i>, (including MCM loans) 	<ul style="list-style-type: none"> • Fully documented mortgage loans underwritten and originated in accordance with (a) the <i>Selling Guide</i>, or the <i>Guide to Underwriting with DU</i>, (including MCM loans), or (b) Freddie Mac’s Single Family Seller/Servicer Guide • If Freddie Mac’s Loan Prospector (LP) is used, the existing mortgage loan must have received an Accept or Accept Plus recommendation and must have been fully documented in accordance with the LP Feedback Certificate
Ineligible Existing Mortgage Loans	<ul style="list-style-type: none"> • Mortgages receiving an Expanded Approval[®] (EA) recommendation in DU • Mortgages receiving a Refer with Caution IV recommendation in DU • Mortgages receiving an A Minus or Caution in LP • Subprime loans • Mortgages receiving an Ineligible recommendation in DU 	<ul style="list-style-type: none"> • Mortgages receiving an EA recommendation in DU • Mortgages receiving a Refer with Caution IV recommendation in DU • Mortgages receiving an A Minus or Caution in LP • Subprime loans • Mortgages receiving an Ineligible recommendation in DU • Any refinance of an 	<ul style="list-style-type: none"> • Mortgages receiving an EA recommendation in DU • Mortgages receiving a Refer with Caution IV recommendation in DU • Mortgages receiving an A Minus or Caution in LP • Subprime loans • Mortgages receiving an Ineligible recommendation in DU • Any refinance of an ineligible loan type

	Option A Fannie Mae to Fannie Mae	Option A Select Fannie Mae to Fannie Mae	Option B GSE to Fannie Mae
	<ul style="list-style-type: none"> Any refinance of an ineligible loan type 	ineligible loan type	
Eligible New Mortgage Products	<ul style="list-style-type: none"> FRMs and ARMs with terms up to 40 years ARMs with initial fixed periods of 3 years or more (standard Fannie Mae ARM plans) FRMs with an interest only (IO) feature that meet <i>Selling Guide</i> requirements for IO loans ARMs with an IO feature and an initial fixed period of 3 years or more that meet <i>Selling Guide</i> requirements for IO loans Balloon mortgages 	<ul style="list-style-type: none"> FRMs with terms up to 40 years ARMs with initial fixed periods of 5 years or more and terms up to 40 years 	<ul style="list-style-type: none"> FRMs and ARMs with terms up to 40 years ARMs with initial fixed periods of 3 years or more (standard Fannie Mae ARM plans) FRMs with an IO feature that meet <i>Selling Guide</i> requirements for IO loans ARMs with an IO feature and an initial fixed period of 3 years or more that meet <i>Selling Guide</i> requirements for IO loans Balloon mortgages
Ineligible New Mortgage Products	<ul style="list-style-type: none"> ARMs with initial fixed periods of less than 3 years ARMs with an IO feature and an initial fixed period of less than 3 years ARMs with the potential for negative amortization MCM mortgage loans Texas 50(a)(6) mortgages 	<ul style="list-style-type: none"> Mortgage loans with an IO feature Balloon mortgages ARMs with initial fixed periods of less than 5 years ARMs with the potential for negative amortization MCM mortgage loans Texas 50(a)(6) mortgages 	<ul style="list-style-type: none"> ARMs with initial fixed periods of less than 3 years ARMs with an IO feature and an initial fixed period of less than 3 years ARMs with the potential for negative amortization. MCM mortgage loans Texas 50(a)(6) mortgages
Seasoning of Existing Mortgage	<ul style="list-style-type: none"> Existing mortgage must be seasoned at least 12 months for all new mortgage product types; 12-month seasoning requirement may not be satisfied using multiple consecutive first lien mortgages 	<ul style="list-style-type: none"> No seasoning requirement 	<ul style="list-style-type: none"> Existing mortgage must be seasoned at least 12 months for all new mortgage product types; 12-month seasoning requirement may not be satisfied using multiple consecutive first lien mortgages
Payment History	<ul style="list-style-type: none"> Existing mortgage 	<ul style="list-style-type: none"> Existing mortgage 	<ul style="list-style-type: none"> Existing mortgage must

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on Existing Mortgage	must be current and the 12 payments made prior to the date of the Uniform Residential Loan Application (Form 1003) must have been made within 30 days of the scheduled due date	must be current and may have up to one 30-day delinquency in the lesser of the life of the loan, or 12 payments, provided the delinquency did not occur within the 3 payments prior to the date of the Form 1003 executed in connection with the new mortgage	be current and the 12 payments made prior to the date of the Form 1003 must have been made within 30 days of the scheduled due date
Loan Purpose	<ul style="list-style-type: none"> • Limited cash-out refinance mortgages • Cash-out refinance mortgages on principal residences only 	<ul style="list-style-type: none"> • Limited cash-out refinance mortgages • Cash-out refinance transactions are not permitted 	<ul style="list-style-type: none"> • Limited cash-out refinance mortgages • Cash-out refinance mortgages on principal residences only
Payment Increase	<ul style="list-style-type: none"> • Monthly principal and interest payment on the new mortgage may not exceed by more than 50 percent the Qualifying Payment calculated in accordance with the requirements of Announcement 07-24 	<ul style="list-style-type: none"> • Monthly principal and interest payment on the new mortgage may not exceed by more than 20 percent the Qualifying Payment calculated in accordance with the requirements of Announcement 07-24 	<ul style="list-style-type: none"> • Monthly principal and interest payment on the new mortgage may not exceed by more than 50 percent the Qualifying Payment calculated in accordance with the requirements of Announcement 07-24
Property Type	<ul style="list-style-type: none"> • All property types are permitted • Manufactured homes are only eligible for limited cash-out refinances 	<ul style="list-style-type: none"> • All property types are permitted 	<ul style="list-style-type: none"> • All property types are permitted except for manufactured homes
Occupancy	<ul style="list-style-type: none"> • All occupancy types permitted 	<ul style="list-style-type: none"> • The property must be the borrower's principal residence or second home 	<ul style="list-style-type: none"> • The property must be the borrower's principal residence or second home
Property Valuation Requirements	<ul style="list-style-type: none"> • The value for the property securing the new mortgage must be supported by a new appraisal report, the full appraisal obtained in connection with the existing mortgage, or 	<ul style="list-style-type: none"> • The value for the property securing the new mortgage must be supported by a new appraisal report, the full appraisal obtained in connection with the existing mortgage, or the applicable DU 	<ul style="list-style-type: none"> • The value of the property securing the new mortgage must be supported by a new appraisal report, the full appraisal obtained in connection with the existing mortgage, the applicable DU

	Option A Fannie Mae to Fannie Mae	Option A Select Fannie Mae to Fannie Mae	Option B GSE to Fannie Mae
	<p>the applicable DU recommendation for existing mortgages underwritten through DU.</p> <ul style="list-style-type: none"> • If the lender uses the original appraisal report to document the transaction, the lender must represent and warrant that the value established for the existing mortgage is still valid. 	<p>recommendation for existing mortgages underwritten through DU.</p> <ul style="list-style-type: none"> • If the lender uses the original appraisal report to document the transaction, the lender must represent and warrant that the value established for the existing mortgage is still valid. 	<p>recommendation for existing mortgages underwritten through DU, or a written appraisal report as indicated by the Minimum Assessment Feedback (MAF) shown on the LP Feedback Certificate for existing mortgages underwritten through LP.</p> <ul style="list-style-type: none"> • The following are not acceptable: <ul style="list-style-type: none"> – Fannie Mae Form 2075 <i>Desktop Underwriter Property Inspection Report</i>, and – Freddie Mac Form 2070 <i>Loan Prospector Condition and Marketability Report</i> or any property inspection alternative • If the lender uses the original appraisal report to document the transaction, the lender must represent and warrant that the value established for the existing mortgage is still valid.

Refer to Announcement 07-24 for additional eligibility criteria.

Attachment 2

Maximum Allowable Loan-to Value (LTV) Ratios and Minimum Credit Score Requirements for Streamlined Refinance Products

Streamlined Refinance Mortgage Option A Select – Fannie to Fannie					
Transaction and Property Type	Number of Dwelling Units	LTV Ratio ¹ (%)	If subordinate financing exists:		Minimum Credit Score ²
			CLTV Ratio	HCLTV Ratio	
<i>Limited Cash-Out Refinance Fully amortizing, FRMs only, without subordinate financing</i>					
Primary Residence Excludes cooperatives and/or manufactured homes	1-unit	100	N/A	N/A	N/A
<i>Limited Cash-Out Refinance, Fully amortizing FRMs and ARMs with initial fixed period ≥ 5 years</i>					
Primary Residence	1-2 units	95	95	95	N/A
	3-4 units	80	80	80	N/A
Primary Residence Cooperatives only	1 unit	90	N/A	N/A	N/A
Second Home	1 unit	95	95	95	N/A
Second Home Cooperatives only	1 unit	80	N/A	N/A	N/A
Investment Property	N/A	N/A	N/A	N/A	N/A

¹ Fannie Mae’s declining market policy requires the lender to reduce the LTV, CLTV, and HCLTV ratio by 5 percentage points from the maximum permitted for the selected product if the property is in a declining market. However, because Option A Select is only available for limited cash-out refinances where the existing mortgage loan is a Fannie Mae-owned or securitized mortgage, this policy is not applicable. The lender may offer financing at the stated maximum LTV/CLTV/HCLTV ratios above.

² The borrower’s “representative” credit score from a merged credit report must be provided at delivery for pricing purposes even though there is no minimum credit score requirement.