



Announcement 07-15

August 21, 2007

Amends these Guides: Selling

Modification to Underwriting Method for Short-Term Adjustable-Rate Mortgage Loans

Introduction

Fannie Mae's underwriting standards promote prudent risk management while also confirming that the borrower has a reasonable ability to make their mortgage payments and is likely to do so in a manner that will enable the borrower to successfully maintain homeownership. Certain adjustable-rate mortgage (ARM) products provide for low initial payments based on a fixed introductory rate that expires after a short period of time and then adjusts to a variable rate for the remaining term of the mortgage loan. These products have the potential for payment shock, which refers to the impact to the borrower's ability to continue making the mortgage payments once the introductory rate expires.

To limit the impact of any potential payment shock after the expiration of any introductory interest rate period, Fannie Mae is updating its underwriting standards for ARM products with fixed-rate periods of three years or less (referred to as "Short-Term ARMs"), as outlined below.

In some instances, instead of using the actual interest rate for qualification purposes, Fannie Mae is requiring the lender to use a different "qualifying rate" (Refer to the *Selling Guide Part X, Section 701, Monthly Housing Expense* for additional details). For Short-Term ARMs, the borrower must be qualified based on the greater of the qualifying rate specified for the transaction, or the fully indexed rate. The fully indexed rate generally equals the index value prevailing at the time of underwriting plus the applicable margin that will apply after the expiration of any introductory interest rate period.

The lenders analysis of the borrower's repayment capacity must include an evaluation of the borrower's ability to repay the debt by final maturity at the fully indexed rate, assuming a fully amortizing repayment schedule. The fully amortizing payment schedule must be based on the term of the mortgage loan.

Effective Date

Desktop Underwriter[®] (DU[®]) will be updated the weekend of October 20, 2007, to apply these qualifying calculations for Short-Term ARMs. More detailed information will be provided in the DU Version 5.7 Update Release Notes.

For Short-Term ARMs that are manually underwritten or underwritten through another automated underwriting system approved by Fannie Mae, mortgage loans with application dates on or after October 20, 2007, should be underwritten in accordance with the provisions of this Announcement. Fannie Mae will consider reasonable accommodations to this date to address lender challenges related to the scheduling of system enhancements.

Lenders should contact their Customer Account Team if they have questions about this Announcement.

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