



3900 Wisconsin Avenue, NW
Washington, DC 20016-2892

Announcement 03-13

November 25, 2003

Amends these Guides: Selling

Changes to Our Conventional Loan Limits, Maximum Daily Mortgage Commitment Limit, and Nonreimbursed Business Expense Policy

The purpose of this Announcement is to publish the new maximum mortgage amount limits effective for 2004 for all conventional mortgages, announce changes to the maximum daily commitment amount for portfolio cash commitments, and modify the treatment of nonreimbursed business expenses for non self-employed borrowers.

Conventional Loan Limits

We are increasing our maximum mortgage amounts to reflect the increase in the national average price for single-family homes. These new amounts will apply to all conventional mortgages that are delivered to us under any outstanding contracts or commitments for cash purchase or MBS pool issuance on or after January 1, 2004 (including mortgages originated prior to that date, provided the *original* unpaid principal balance was equal to or less than the new maximum limit). Lenders are reminded that a modified mortgage that had an *original* unpaid principal balance that exceeded our current maximum limit, even though the balance may have been paid down at the time of the modification to or below our current maximum limit, is *not* eligible for purchase by us.

First Mortgage Limits

For first mortgages, the maximum allowable original loan amount will be:

<u>No. of Units</u>	<u>Contiguous States, District of Columbia & Puerto Rico</u>	<u>Alaska, Guam, Hawaii & Virgin Islands</u>
1	\$333,700	\$500,550
2	\$427,150	\$640,725
3	\$516,300	\$774,450
4	\$641,650	\$962,475

Second Mortgage Limits

For second mortgages, the maximum allowable original loan amount will be \$166,850 (or \$250,275 in Alaska, Guam, Hawaii, and the Virgin Islands). Furthermore, the sum of the original loan amounts of the first and second mortgages cannot exceed \$333,700 (or \$500,550 in Alaska, Guam, Hawaii, and the Virgin Islands). These limits apply whether or not we own or have an interest in the first mortgage.

Part III: Mortgage Commitments

Chapter 3, Portfolio Cash Commitments, Section 302, Commitment Amount. The Selling Guide states that we will issue standard commitments and negotiated contracts for mortgages that will be delivered to us as a cash purchase for retention in our portfolio. All standard cash commitments and negotiated cash contracts are issued from our Washington office. A lender generally must obtain a mandatory delivery commitment for the whole mortgages and participation pool mortgages it intends to deliver to us for a cash purchase. The Guide, however, neither establishes a maximum commitment amount that a lender may request for a standard mandatory delivery cash commitment for either whole mortgage or participation pool deliveries, nor does it establish a maximum limit on the aggregated daily commitment volume. We are changing these policies to establish a maximum daily commitment volume (in aggregate) of \$200 million effective immediately. However, because we do not wish to limit a lender's liquidity, any lender seeking to exceed the \$200 million limit should contact our Whole Loan Desk (i.e., Cash Commitment Window) at (800) 752-1080. Any lender that exceeds the \$200 million limit without our approval may be required to payoff its commitment(s).

Part X: Underwriting Guidelines

Chapter 7, Liabilities and Qualifying Ratios, Section 702.03, All Other Liabilities, F, Nonreimbursed employee expenses. This section of the Selling Guide states that when a borrower has nonreimbursed business expenses, the lender must determine the borrower's recurring monthly debt obligation for such expenses by developing a 24-month average of the expenses, using information from the borrower's *U.S. Income Tax Return* (IRS Form 1040) and net out any claimed automobile depreciation. Although this section of the Guide requires the lender to treat nonreimbursed business expenses as a debt obligation, that requirement is not consistent with how nonreimbursed business expenses are treated on line 13 of our *Cash Flow Analysis* (Form 1084), nor is it consistent with current IRS policy. Both Form 1084 and IRS policy state that nonreimbursed business expenses should be subtracted from total income, unless such expenses are automobile lease payments or automobile loan payments, in which case they should be considered part of the borrower's recurring monthly debt obligations. Therefore, effective immediately, we are changing this section of our Guide as follows in order to make it consistent with Form 1084 and IRS policy:

When a borrower has nonreimbursed business expenses such as classroom supplies, uniforms, meals, gasoline, automobile insurance and/or automobile taxes, the lender must determine the borrower's recurring monthly obligation for such expenses by developing a 24-month average of the expenses, using information from the borrower's *U.S. Income Tax Return* (IRS Form 1040) including all schedules (Schedule A (*Itemized Deductions*) and IRS Form 2106 (*Employee Business Expenses*)) and net out any automobile depreciation claimed on IRS Form 2106. Consequently, when calculating the total debt-to-income ratio, the 24-month average for nonreimbursed expenses should be subtracted from the borrower's stable monthly income, unless such expenses are automobile lease payments or automobile loan payments, in which case they are to be considered part of the borrower's recurring monthly debt obligations.

Nonreimbursed business expenses for self-employed borrowers are addressed in Section 503.02 of this Part X.

Lenders should contact their Customer Account Manager or Underwriting Consultant in their lead Fannie Mae office if they have any questions about this Announcement.

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