



# Operations Announcement

October 18, 2023

**Subject:** Recent Policy Changes - Conventional

**To:** All

BFF is aligning with the recent Agency announcements. The announcements are summarized below with a link to the Agency’s full announcement.

| Agency                   | Summary  | Effective Date                              | Agency Ann.  |
|--------------------------|--|---|--|
| <p><b>Fannie Mae</b></p> | <p>Fannie Mae has updated their guidelines in the following areas:</p> <p><b>Rental Income:</b> Fannie Mae aligned the use of rental income that can be considered for qualifying purposes for non-subject rental properties that have become rental properties within the last 12 months (investment properties or two- to four-unit primary residences), with that of rental income earned from the subject property. This update will require the borrower to have a primary housing expense and at least one year’s history of property management experience to use the full amount of rental income towards qualifying, otherwise the amount may be limited.</p> <p>Fannie Mae has also clarified the treatment of rental income when multiple rental properties are owned to ensure the Guide aligns with Desktop Underwriter (DU) functionality. This means that when rental income is considered from multiple rental properties, the income or loss is calculated on a per property basis but then aggregated for non-subject properties so the total amount of either income or loss across all rental properties is considered in the calculation of the borrower’s total debt-to income ratio.</p> <p>Fannie Mae has also amended documentation requirements for lease agreements. Form 1007 or Form 1025 must support the income reflected on the lease agreement or the lease agreement must provide evidence that the terms of the lease have gone into effect with proof of receipt for at least two-month’s rental payments.</p> <p>Fannie has also provided supplemental scenarios for documenting partial rental income when the rental property was not in service the previous tax year or was only in service for a portion of the previous tax year. This information should assist lenders with their analysis of using alternative rental income calculations or determining when the use of lease agreements is more appropriate.</p> | <p>Immediately, unless otherwise noted.</p> | <p><a href="https://www.fanniemac.com">display (fanniemac.com)</a></p> |

**Self-Employed Borrowers - Length of self-employment:** Current underwriting requirements emphasize the continuity of a borrower's stable income to demonstrate the likelihood that a consistent level of income will continue to be received for borrowers. For borrowers using self-employment income to qualify, Fannie Mae requires lenders to obtain a two-year history of the borrower's prior earnings as a means of demonstrating the likelihood that the income will continue to be received but allows a shorter history in certain circumstances.

Fannie has updated the Selling Guide to clarify the requirements for use of self-employment income when the borrower has less than a two-year history of self-employment. These clarifications include a requirement for the signed personal and business federal income tax returns to reflect a minimum of 12 months of self-employment income from the current business.

**Self-Employed Borrowers - Tax return requirements:** Fannie Mae has updated the policy to allow one year of personal and business tax returns when:

- All self-employed businesses have been in existence for five years, and
- The borrower has had a 25% or greater ownership interest for the last five consecutive years.

This policy applies to DU loans.

**Manufactured housing data plate:** Currently, the policy on Manufactured housing requires both the HUD Data Plate and HUD Certification Label information be provided in the appraisal report along with photo exhibits, if available. With this policy update, only one of the two will be required. Specifically,

- If only one of these is available to the appraiser, that will satisfy compliance with the Selling Guide. (Note that this applies to each section of the home.)
- If neither are available, BFF underwriter must obtain either a Label Verification Letter with the HUD Certification Label(s) information or duplicate HUD Data Plate/Compliance Certificate from the Institute for Building Technology and Safety.

BFF underwriter may also contact the In-Plant Primary Inspection Agency or the manufacturer for the HUD Data Plate information.

**Note:** This update does not apply to newly constructed manufactured homes because these items must be present on all new units.

**Value acceptance + property data clarification:** Clarifying the policy to specifically state that property data collection must be obtained and submitted to Property Data API prior to the note date.

| <p><b>Fannie Mae</b></p>  | <p>During the weekend of November 18, 2023, Fannie Mae will update Desktop Underwriter® (DU®) Version 11.1, which will include the changes described below.</p> <p><b>LTV Ratios:</b> To expand access to credit and provide support for affordable rental housing, the maximum allowable LTV, CLTV, and HCLTV ratios for two- to four-unit, principal residence, purchase, and limited cash-out transactions will be updated to 95%. This change will not apply to high-balance mortgage loans. The table below highlights the updated LTV ratios.</p> <table border="1" data-bbox="264 499 1081 1066"> <thead> <tr> <th colspan="3">Standard Eligibility Requirements - Desktop Underwriter Version 11.1</th> </tr> <tr> <th colspan="3">Excludes: High LTV Refinance, HomeReady®, HomeStyle® Renovation, and Manufactured Housing</th> </tr> <tr> <th>Transaction Type</th> <th>Number of Units</th> <th>Maximum LTV, CLTV, HCLTV</th> </tr> </thead> <tbody> <tr> <td colspan="3"><b>Principal Residence</b></td> </tr> <tr> <td rowspan="3">Purchase<br/>Limited Cash-Out Refinance</td> <td>1 Unit</td> <td>FRM: 97%<br/>ARM: 95%</td> </tr> <tr> <td>2 Units</td> <td>FRM/ARM: <b>95%</b> (currently 85%)</td> </tr> <tr> <td>3 - 4 Units</td> <td>FRM/ARM: <b>95%</b> (currently 75%)</td> </tr> <tr> <td colspan="3"><b>HomeReady</b></td> </tr> <tr> <td colspan="3"><b>Principal Residence</b></td> </tr> <tr> <td rowspan="2">Purchase<br/>Limited Cash-Out Refinance</td> <td rowspan="2">1 Unit</td> <td>FRM: 97%<br/>ARM: 95%</td> </tr> <tr> <td>FRM/ARM: <b>95%</b> (currently 85%)</td> </tr> <tr> <td rowspan="2">Purchase<br/>Limited Cash-Out Refinance</td> <td>2 Units</td> <td>FRM/ARM: <b>95%</b> (currently 85%)</td> </tr> <tr> <td>3 - 4 Units</td> <td>FRM/ARM: <b>95%</b> (currently 75%)</td> </tr> <tr> <td colspan="3"><b>HomeStyle Renovation</b></td> </tr> <tr> <td colspan="3"><b>Principal Residence</b></td> </tr> <tr> <td rowspan="3">Purchase<br/>Limited Cash-Out Refinance</td> <td>1 Unit</td> <td>FRM: 97%<br/>ARM: 95%</td> </tr> <tr> <td>2 Units</td> <td>FRM/ARM: <b>95%</b> (currently 85%)</td> </tr> <tr> <td>3-4 Units</td> <td>FRM/ARM: <b>95%</b> (currently 75%)</td> </tr> </tbody> </table> <p><b>Social Security Number Message Retirement:</b> In 2011 the Social Security Administration changed the way Social Security numbers (SSNs) are issued by implementing a process known as "randomization." As a result, the DU message that stated that the SSN "has not been issued or was recently issued" was moved to an Observation message in 2019. Since more time has passed using randomization to issue SSNs, and more SSNs have been issued using randomization, this message will now be retired.</p> <p><b>Liability Payment includes Taxes and Insurance Indicator:</b> An indicator was added with the redesigned URLA to specify if the disclosed liability payment also includes the taxes and insurance for the property. This indicator is set using the "Total includes taxes and/or insurance" checkbox in the Mortgage Loans on Property section of the Real Estate section of the Desktop Originator® (DO®)/DU User Interface. When the indicator is provided as True, the Monthly Insurance, Taxes, Association Dues, etc. provided separately on the loan application will no longer be included in the total monthly expenses for the property.</p> | Standard Eligibility Requirements - Desktop Underwriter Version 11.1 |  |  | Excludes: High LTV Refinance, HomeReady®, HomeStyle® Renovation, and Manufactured Housing |  |  | Transaction Type | Number of Units | Maximum LTV, CLTV, HCLTV | <b>Principal Residence</b> |  |  | Purchase<br>Limited Cash-Out Refinance | 1 Unit | FRM: 97%<br>ARM: 95% | 2 Units | FRM/ARM: <b>95%</b> (currently 85%) | 3 - 4 Units | FRM/ARM: <b>95%</b> (currently 75%) | <b>HomeReady</b> |  |  | <b>Principal Residence</b> |  |  | Purchase<br>Limited Cash-Out Refinance | 1 Unit | FRM: 97%<br>ARM: 95% | FRM/ARM: <b>95%</b> (currently 85%) | Purchase<br>Limited Cash-Out Refinance | 2 Units | FRM/ARM: <b>95%</b> (currently 85%) | 3 - 4 Units | FRM/ARM: <b>95%</b> (currently 75%) | <b>HomeStyle Renovation</b> |  |  | <b>Principal Residence</b> |  |  | Purchase<br>Limited Cash-Out Refinance | 1 Unit | FRM: 97%<br>ARM: 95% | 2 Units | FRM/ARM: <b>95%</b> (currently 85%) | 3-4 Units | FRM/ARM: <b>95%</b> (currently 75%) | <p>November 18, 2023</p> | <p><a href="https://www.fanniemac.com">display (fanniemac.com)</a></p> |
|---|---|--|--|--|---|--|--|------------------|-----------------|--------------------------|----------------------------|--|--|--|--------|----------------------|---------|-------------------------------------|-------------|-------------------------------------|------------------|--|--|----------------------------|--|--|--|--------|----------------------|-------------------------------------|--|---------|-------------------------------------|-------------|-------------------------------------|-----------------------------|--|--|----------------------------|--|--|--|--------|----------------------|---------|-------------------------------------|-----------|-------------------------------------|--------------------------|--|
| Standard Eligibility Requirements - Desktop Underwriter Version 11.1                      |   |  |  |  |   |  |  |                  |                 |                          |                            |  |  |  |        |                      |         |                                     |             |                                     |                  |  |  |                            |  |  |  |        |                      |                                     |  |         |                                     |             |                                     |                             |  |  |                            |  |  |  |        |                      |         |                                     |           |                                     |                          |  |
| Excludes: High LTV Refinance, HomeReady®, HomeStyle® Renovation, and Manufactured Housing |   |  |  |  |   |  |  |                  |                 |                          |                            |  |  |  |        |                      |         |                                     |             |                                     |                  |  |  |                            |  |  |  |        |                      |                                     |  |         |                                     |             |                                     |                             |  |  |                            |  |  |  |        |                      |         |                                     |           |                                     |                          |  |
| Transaction Type  | Number of Units   | Maximum LTV, CLTV, HCLTV   |  |  |   |  |  |                  |                 |                          |                            |  |  |  |        |                      |         |                                     |             |                                     |                  |  |  |                            |  |  |  |        |                      |                                     |  |         |                                     |             |                                     |                             |  |  |                            |  |  |  |        |                      |         |                                     |           |                                     |                          |  |
| <b>Principal Residence</b>  |   |  |  |  |   |  |  |                  |                 |                          |                            |  |  |  |        |                      |         |                                     |             |                                     |                  |  |  |                            |  |  |  |        |                      |                                     |  |         |                                     |             |                                     |                             |  |  |                            |  |  |  |        |                      |         |                                     |           |                                     |                          |  |
| Purchase<br>Limited Cash-Out Refinance  | 1 Unit  | FRM: 97%<br>ARM: 95%   |  |  |   |  |  |                  |                 |                          |                            |  |  |  |        |                      |         |                                     |             |                                     |                  |  |  |                            |  |  |  |        |                      |                                     |  |         |                                     |             |                                     |                             |  |  |                            |  |  |  |        |                      |         |                                     |           |                                     |                          |  |
|   | 2 Units   | FRM/ARM: <b>95%</b> (currently 85%)                                  |  |  |   |  |  |                  |                 |                          |                            |  |  |  |        |                      |         |                                     |             |                                     |                  |  |  |                            |  |  |  |        |                      |                                     |  |         |                                     |             |                                     |                             |  |  |                            |  |  |  |        |                      |         |                                     |           |                                     |                          |  |
|   | 3 - 4 Units   | FRM/ARM: <b>95%</b> (currently 75%)                                  |  |  |   |  |  |                  |                 |                          |                            |  |  |  |        |                      |         |                                     |             |                                     |                  |  |  |                            |  |  |  |        |                      |                                     |  |         |                                     |             |                                     |                             |  |  |                            |  |  |  |        |                      |         |                                     |           |                                     |                          |  |
| <b>HomeReady</b>  |   |  |  |  |   |  |  |                  |                 |                          |                            |  |  |  |        |                      |         |                                     |             |                                     |                  |  |  |                            |  |  |  |        |                      |                                     |  |         |                                     |             |                                     |                             |  |  |                            |  |  |  |        |                      |         |                                     |           |                                     |                          |  |
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|   |   | FRM/ARM: <b>95%</b> (currently 85%)                                  |  |  |   |  |  |                  |                 |                          |                            |  |  |  |        |                      |         |                                     |             |                                     |                  |  |  |                            |  |  |  |        |                      |                                     |  |         |                                     |             |                                     |                             |  |  |                            |  |  |  |        |                      |         |                                     |           |                                     |                          |  |
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| <b>HomeStyle Renovation</b>   |   |  |  |  |   |  |  |                  |                 |                          |                            |  |  |  |        |                      |         |                                     |             |                                     |                  |  |  |                            |  |  |  |        |                      |                                     |  |         |                                     |             |                                     |                             |  |  |                            |  |  |  |        |                      |         |                                     |           |                                     |                          |  |
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| <p><b>Freddie Mac</b></p>   | <p>Freddie Mac has updated their guidelines in the following areas:</p> <p><b>Updates to Rental Income Requirements:</b> Updating rental income requirements, including, but not limited to:</p>  | <p>Immediately, unless otherwise noted.</p>                          | <p><a href="https://www.freddie.com">Guide Bulletin 2023-19 (freddiemac.com)</a></p> |  |   |  |  |                  |                 |                          |                            |  |  |  |        |                      |         |                                     |             |                                     |                  |  |  |                            |  |  |  |        |                      |                                     |  |         |                                     |             |                                     |                             |  |  |                            |  |  |  |        |                      |         |                                     |           |                                     |                          |  |

- Removing the requirement that a lease must have a minimum original term of one year.
- Specifying that for newly executed leases, the first rental payment due date must be no later than the first payment due date of the Mortgage.
- Updating documentation requirements for receipt of two months' rental income to require evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution or transferred into a third-party money transfer application account owned by the Borrower.
- Permitting documentation of receipt of the security deposit plus first month's rental payment, in lieu of receipt of two months' rental payments.
- Removing the appraisal requirement that at least one comparable sale must have an ADU that is rented, when rental income generated from an ADU on a subject 1-unit Primary Residence is used to qualify the Borrower.
- Reformatting the documentation requirements table for rental income generated from an ADU on subject 1-unit Primary Residence "no cash-out" refinance transactions.

**Transition to Uniform Property Dataset (UPD): Effective for Mortgages with Settlement Dates on or after December 1, 2023,**

Freddie Mac is announcing the implementation dates for transitioning from the Freddie Mac Property Dataset (PDR v2.0) to the UPD, as well as the requirements for submission to Freddie Mac's Beyond ACE application programming interface (bACE API).

For Mortgages with Application Received Dates on or after December 1, 2023, the UPD will be available for use in completing PDRs, and the enhanced bACE API will also be available to support submission of a PDR using either the Freddie Mac Property Dataset (PDR v2.0) or the UPD.

For Mortgages with Application Received Dates on or after April 1, 2024, we will be required to use the UPD and must submit PDRs to Freddie Mac using the bACE API. The Freddie Mac Property Dataset (PDR v2.0) will no longer be accepted.

As a reminder, the PDR must always be successfully uploaded to FHLMC API software and be retained in the mortgage file.

**Desktop Appraisals – Eligibility Updates:** Updated desktop appraisal eligibility list to reflect that refinance Mortgages and Mortgages secured by mixed-use properties are not eligible for a desktop Appraisal. Additionally, super conforming Mortgages that meet the desktop eligibility requirements may be originated with a desktop appraisal instead of an appraisal with an interior and exterior inspection (Form 70, Uniform Residential Appraisal Report).

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|  | <p><b>Desktop Appraisals – Last Feedback Certificate:</b> Updated desktop appraisal eligibility requirements to remove the requirement that the Last Feedback Certificate must indicate desktop eligibility. Additionally, the appraisal form section has been updated to reflect that BFF may deliver an appraisal report that exceeds the minimum collateral assessment requirement indicated by the Last Feedback Certificate, provided the eligibility requirements for the selected appraisal type are met.</p> <p><b>Student Loans:</b> Updated the language to further specify that when documentation in the Mortgage file other than the credit report is used to verify the current student loan payment amount, the verified payment amount must be greater than zero. The update is editorial in nature and does not change the intent of the requirement.</p> |  |  |
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If you have any questions or concerns, please do not hesitate to contact us.

Thank you,  
BFF Team