



***Announcement 08-05***

***March 6, 2008***

***Amends these Guides: Selling***

***Temporary Increase to Our Conventional Loan Limits***

## **Introduction**

The Economic Stimulus Act of 2008, signed into law on February 13, 2008, establishes temporary increases to Fannie Mae's conventional loan limits for first lien mortgage loans in high-cost areas, as defined by the U.S. Department of Housing and Urban Development (HUD). This new legislation is intended to bring stability, liquidity and affordability to an important part of the housing finance system.

The purpose of this Announcement is to outline Fannie Mae's requirements for the origination, underwriting, delivery and servicing of "jumbo-conforming" mortgage loans. A jumbo-conforming mortgage loan is any conventional conforming mortgage loan for which the original principal balance exceeds our conforming loan limits in effect prior to the temporary increase up to the new limits set by HUD for the area in which the property is located. Unless otherwise stated in this Announcement, all requirements of Fannie Mae's *Selling Guide* and *Servicing Guide* apply to jumbo-conforming mortgage loans.

## **Loan Limits**

Fannie Mae will purchase jumbo-conforming mortgages secured by one-unit properties only. The new loan limits are applicable only to high-cost areas and will be calculated based on the location of the subject property as follows:

- 125 percent of the area median home price in high-cost areas, not to exceed \$729,750 except in Alaska, Hawaii, Guam and the U.S. Virgin Islands
- In situations where 125 percent of the area median home price is less than \$417,000, the loan limit will remain at \$417,000 (\$625,500 for Alaska, Guam, Hawaii, and the U.S. Virgin Islands)

HUD will publish a list of the geographic areas designated as high-cost, and the corresponding loan limits. Lenders are responsible for ensuring that individual mortgage loans do not exceed our maximum loan limits. To assist lenders in determining this, we will post reference material on the Fannie Mae Web site (eFannieMae.com) under the Single-Family Reference Materials section “Loan Limits” page. Shortly after HUD publishes the official list of areas and limits, we will make a county-based list available on our Web site, and by April 1, 2008, we expect to provide a geo-coding tool, and other supporting material.

## Effective Dates

Subject to the limitations and requirements detailed in this Announcement, Fannie Mae will purchase jumbo-conforming mortgage loans as follows:

Product Type	Delivery Method	Effective Dates
Fixed-rate Mortgage (FRM)	Whole loans	Purchase on or after April 1, 2008
	MBS	Delivery dates on or after April 1, 2008
Adjustable-rate Mortgage (ARM)	Whole loans	Purchase on or after May 1, 2008
	MBS	Delivery dates on or after May 1, 2008

## Loan Eligibility for Jumbo-Conforming Mortgage Loans

- Loans must be conventional first lien mortgages only.
- Loans must have been originated (based on the date of the mortgage note) on or after March 1, 2008 up to and including December 31, 2008.
- Fannie Mae will consider bulk purchases of loans originated on or after July 1, 2007 on a negotiated basis with appropriate pricing and eligibility criteria specific to each transaction.
- All loans must be manually underwritten. The jumbo-conforming loan limits, eligibility, and underwriting guidelines will be added to Desktop Underwriter® in a future release.

## Maximum Loan-to-Value (LTV), Combined Loan-to-Value (CLTV), and Home Equity Combined Loan-to-Value (HCLTV) Ratios

The following chart outlines the maximum LTV, CLTV, and HCLTV ratio requirements for jumbo-conforming mortgage loans.

Loan Purpose	Product Type	LTV	CLTV	HCLTV	Minimum FICO® Score
<b>Principal Residence</b>					
<b>Purchase</b>	FRM	90%	90%	90%	LTV > 80%: 700 LTV ≤ 80%: 660
	ARM	80%	80%	80%	660
<b>Limited cash-out refinance</b>	FRM ARM	75%	95%	95%	660
<b>Cash-out refinance</b>	NA	NA	NA	NA	NA
<b>Second Home and Investment Property</b>					
<b>Purchase</b>	FRM ARM	60%	60%	60%	660
<b>Limited cash-out refinance</b>	FRM ARM	60%	60%	60%	660
<b>Cash-out refinance</b>	NA	NA	NA	NA	NA

### Eligibility Requirements

The chart below outlines the eligibility criteria that apply to jumbo-conforming mortgage loans.

Loan Characteristic	Eligibility Requirements
<b>Eligible Product Types</b>	<ul style="list-style-type: none"> <li>FRM fully amortizing mortgages with 15- or 30-year term</li> <li>5/1 ARM, fully amortizing mortgages with 30-year term, LIBOR index, 5/2/5 caps</li> <li>5/1 ARM, interest-only (IO) for 10 years with 30-year term, LIBOR index, 5/2/5 caps</li> </ul> <p><b>Note:</b> Additional information about the origination (and delivery) of ARM loans, including specific ARM plans that must be used, will be forthcoming in a future announcement.</p>
<b>Property Type</b>	<ul style="list-style-type: none"> <li>One-unit property located on an individual lot or in a condominium or PUD</li> </ul>
<b>Occupancy by Loan Purpose</b>	<ul style="list-style-type: none"> <li>Principal residence, second home and investment property occupancy are permitted for purchases and limited cash-out refinances</li> </ul>
<b>Refinance Guidelines</b>	<p><b>Limited cash-out refinances</b></p> <ul style="list-style-type: none"> <li>New loan amount can include unpaid principal balance of the first mortgage that is being refinanced, points, closing costs,</li> </ul>

	<p>prepaid fees, and up to \$2000 cash back to the borrower</p> <ul style="list-style-type: none"> <li>• Primary residence: existing subordinate liens must be resubordinated; consolidation of a first lien with subordinate lien(s) is not permitted</li> <li>• Six months' minimum seasoning (i.e., six payments made) since most recent refinance or date of purchase is required</li> </ul>
<b>Credit</b>	<ul style="list-style-type: none"> <li>• Minimum FICO® scores apply per the above chart</li> <li>• All borrowers must have a FICO score</li> <li>• 0 X 30 payment history on all housing debts for the last 12 months (required for all mortgages and rental payments)</li> </ul>
<b>Reserves</b>	<ul style="list-style-type: none"> <li>• Primary residence: two months' payments</li> <li>• Second home and investment property: six months' payments</li> <li>• Reserves must be calculated based on the PITI or ITI payment, as applicable</li> </ul>
<b>Debt-to-Income Ratio</b>	<ul style="list-style-type: none"> <li>• 45% maximum</li> <li>• All ARMs must be qualified based on the fully amortizing payment (PITI) at the higher of the note rate or fully-indexed rate</li> </ul>
<b>Documentation Requirements</b>	<ul style="list-style-type: none"> <li>• Full documentation per the <i>Selling Guide</i> is required</li> </ul>
<b>Maximum Number of Financed Properties</b>	<ul style="list-style-type: none"> <li>• Limited to four, including the borrower's principal residence</li> <li>• Applies to all occupancy types</li> </ul>
<b>Borrower Contribution</b>	<ul style="list-style-type: none"> <li>• For purchase transactions, the borrower must contribute at least 5% from his or her own funds to the transaction, regardless of the LTV</li> </ul>
<b>Interested Party Contributions</b>	<ul style="list-style-type: none"> <li>• Maximum of 3% is permitted for principal residence and second homes regardless of the LTV</li> <li>• Maximum of 2% is permitted for investment properties</li> </ul>
<b>Appraisals</b>	<ul style="list-style-type: none"> <li>• Appraisal with interior and exterior inspection is required (Form 1004 or 1073, as applicable)</li> <li>• For properties with value \$1,000,000 or greater Field Review (Form 2000) is also required if the LTV, CLTV, or HCLTV is <math>\geq</math> 75%</li> </ul>

	<ul style="list-style-type: none"> <li>• Condominium requirements: two comparables must be from projects outside of the subject project</li> <li>• Fannie Mae's Declining Markets Policy applies to mortgage loans with LTV, CLTV, or HCLTV &gt; 75%</li> <li>• Lenders must use appraisers who are experienced with the types of properties that are eligible for jumbo-conforming financing</li> </ul>
<b>Project Review</b>	<ul style="list-style-type: none"> <li>• CPM Expedited Review or Lender Full Review process is required for attached units in both condominium and PUD projects in accordance with Fannie Mae Announcement 07-18 (The Limited Review process is not permitted)</li> </ul>
<b>Mortgage Insurance (MI)</b>	<ul style="list-style-type: none"> <li>• Standard MI coverage is required if the LTV exceeds 80%. Refer to Part V, Section 101.01 of the <i>Selling Guide</i></li> <li>• Borrower or lender-paid MI is permitted</li> <li>• Financed borrower-purchased MI is not permitted</li> <li>• Lenders should contact their MI provider to obtain its eligibility requirements</li> </ul>

### **Ineligible Products, Features, or Transaction Types**

The following are not permitted on jumbo-conforming mortgage loans:

- Balloons
- Bi-weekly payment schedules
- Cash-out refinances
- Cooperative properties
- Daily simple interest
- Fixed-rate mortgages that permit assumability
- HomeStyle® products including Construction-to-Permanent mortgages
- IO FRMs
- MyCommunityMortgage®
- Manufactured homes
- Mortgages with prepayment penalties
- One-time close construction transactions
- Relocation mortgages
- Reverse mortgages
- Second liens
- Streamlined refinance and streamlined purchase
- Temporary buydowns

- Two-, three- and four-unit properties

**Notes:** Existing variances in the lender's Master Agreement may not be applied toward jumbo-conforming mortgage loans. In addition, although the stimulus package included a provision that allows for temporary increases to FHA's loan limit, Fannie Mae will not purchase FHA loans with the higher limits.

## Loan-Level Price Adjustments

A loan-level price adjustment (LLPA) applies to all jumbo-conforming mortgage loans, whether delivered under whole loan commitments or MBS contracts.

Jumbo-conforming mortgage loans are also subject to all other applicable LLPAs per the *Selling Guide*, as well as the Adverse Markets Delivery Charge.

Product Type	LLPA
FRM	.25%
ARM	.75%

In Announcement 07-12, *Miscellaneous Changes*, Fannie Mae announced that the Loan-Level Price Adjustment Matrix was being moved from the *Selling Guide* to Fannie Mae's Web site. With the release of this Announcement, Fannie Mae has updated the matrix to reflect the new LLPAs. The updated matrix is available via the Single-Family Reference Materials page on eFannieMae.com. Lenders are reminded that LLPAs are listed exclusively on eFannieMae.com and are incorporated by reference into the *Selling Guide* and are binding on lenders as provided by the Mortgage Selling and Servicing Contract.

## Whole Loan Commitments

For jumbo-conforming mortgage loans, Fannie Mae will provide live pricing options on eCommitting for mandatory whole loan commitments based on the following schedule:

Product Type	Pricing Available Date
FRM, 30-year and 15-year	April 1, 2008
5/1 LIBOR ARM, fully amortizing	May 1, 2008
5/1 LIBOR ARM, IO	May 1, 2008

Contract eligibility will be restricted such that jumbo-conforming and standard conforming loans may not be commingled in the same whole loan commitment.

**Note:** Jumbo-conforming product pricing will be available for Best Efforts commitments on eCommitONE™ at a later date.

## MBS Pools

Jumbo-conforming mortgage loans may be delivered into existing MBS contracts, and therefore will use the same base guaranty fees and applicable LLPAs as those used for the lender's standard conforming mortgage loans. Standard conforming mortgage loans will be permitted to be commingled with jumbo-conforming mortgage loans in pools with new prefixes. The following pool prefix information will apply for any pool containing a jumbo-conforming fixed-rate mortgage loan (with note dates of March 1, 2008 and later):

<b>Product Type</b>	<b>Pool Prefix</b>
FRM 30-Year	CK
FRM 15-Year	CJ

**Note:** ARM pool prefix and subtype information will be communicated in a future announcement.

Per current pooling requirements, Fannie Majors<sup>®</sup>, Fannie Megas<sup>®</sup>, Stripped MBS (SMBS) and whole loan backed REMICs will be available for jumbo-conforming mortgage loans. Flash MBS<sup>®</sup> processing will not be available initially, but may be added in the future as additional features and options are developed.

### **MBS Buyup and Buydown Grids**

Jumbo-conforming mortgage loans will be subject to specific Buyup and Buydown grids. For April MBS issues, 30-year FRM and 15-year FRM grids will be published before April 1 for both early and late posting options. For May MBS issues, early and late posting for 30-year FRM, 15-year FRM, 5/1 ARM and 5/1 IO ARM will occur in April on the dates of the month specified in Part II, Section 204 of the *Selling Guide*.

### **Early Funding Settlement Options**

Early funding options, including As Soon As Pooled<sup>®</sup> and As Soon As Pooled PLUS, are supported for jumbo-conforming mortgage loans. Standard policies and processes apply.

### **Remittance Options**

The following remittance options are available for jumbo-conforming mortgage loans:

- Actual/Actual (whole loans)
- Scheduled/Scheduled (MBS or whole loans)

The Rapid Payment Method (RPM<sup>®</sup>) and MBS Express remittance options are not available for jumbo-conforming mortgage loans.

### **Delivery Data Requirements including Special Feature Codes**

For all jumbo-conforming mortgage loans, the *Date of Mortgage Note* field in the loan delivery data will be a mandatory field. Refer to the *Selling Guide*, Part VI, Exhibits 1 and 2 (field 86) for the delivery data layout and field definitions. This data is necessary for us to put in place the appropriate controls to ensure compliance with the temporary maximum loan limits.

Lenders must use special feature code 800 when delivering any jumbo-conforming mortgage loan to Fannie Mae. All other applicable special feature codes must also be provided.

## Servicing

There are no unique servicing requirements related to the servicing of jumbo-conforming mortgage loans. All requirements of the Fannie Mae *Servicing Guide* apply. As a reminder, the minimum retained servicing fee is 25 basis points.

## Anti-Predatory Lending Requirements

Many state high-cost lending laws define the population of mortgage loans they regulate by reference to our conforming loan limit. Therefore, the new higher temporary conforming loan limits will expand the coverage of some of these laws to include jumbo-conforming mortgage loans. We remind lenders of their obligations to ensure that all mortgage loans they deliver to Fannie Mae 1) comply with applicable consumer protection laws, including state abusive lending laws, and 2) comply with our standards that guard against the purchase of home mortgages with predatory features. More specific guidance is set forth below.

Fannie Mae Policy	References	Jumbo-Conforming Notes
Prohibit delivery of high-cost and other mortgage loans governed by specified state abusive lending laws (e.g. New York Banking Law §6-1), regardless of whether any provision of the laws is preempted by federal law.	<i>Selling Guide</i> , Part VII, 104.15	For loans originated on or after the publication date of HUD’s designated high-cost areas, Fannie Mae will use the jumbo-conforming loan limit where applicable, to determine if they are high-cost mortgage loans.
Require that mortgage loans delivered to Fannie Mae comply with 1) all relevant consumer protection laws, and 2) our standards that guard against the purchase of home mortgages with predatory features.	Mortgage Selling and Servicing Contract, Section IV A  <i>Selling Guide</i> , Part 1, Section 310	Applies to all jumbo-conforming mortgage loans, regardless of the origination date.

## Lender Representation and Warranty

By delivering a jumbo-conforming mortgage loan to Fannie Mae, the lender represents and warrants (in addition to the representations and warranties it otherwise makes) that the original unpaid principal balance of the loan does not exceed the maximum loan limit published by HUD for the area in which the subject property is located. Any mortgage loan sold to Fannie Mae whose original unpaid principal balance exceeds the legal limits, or that otherwise fails to meet the requirements of the *Selling Guide*, the lender's Mortgage Selling and Servicing Contract, the lender's Master Agreement (excluding any variance) or the eligibility requirements outlined in this Announcement for jumbo-conforming loans, is subject to repurchase by the lender.

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Lenders who have questions about Announcement 08-05 should contact their Customer Account Team.

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