



Selling Guide Announcement (SEL-2020-06)

Oct. 07, 2020

The *Selling Guide* has been updated to include changes to the following:

- [Remote online notarizations](#): updating the Guide to align with LL-2020-03, including additional clarifications
- [Project standards updates](#): clarifying project standards requirements concerning condotel ineligibility, pre-litigation activities, and recreational leases
- [Third-party employment verification vendors](#): removing validation of employment and income using manual verification reports from DU validation service
- [HomeReady® mortgage loans and negotiated variances](#): changing how variances will reflect HomeReady eligibility
- [Clarifications based on Ask Poli® insights](#): clarifying cash-out refinance vesting requirements when there are multiple borrowers; and gifts of equity are permitted as down payment or towards closing costs

View the list of [impacted topics](#).

Remote online notarizations

We accept delivery and servicing of loans with electronic documents, including security instruments that have been electronically notarized, either in person or remotely using real-time, two-way audio/video communication. A remote online notarization is an electronic notarization in which the notary and the person signing the documents are in different physical locations and the documents are signed electronically and the notarial seal is applied electronically.

With the disruption related to COVID-19 and the difficulty that resulted in obtaining in-person notarizations, we provided a number of flexibilities for the use of remote online notarization in Lender Letter LL-2020-03, *Impact of COVID-19 on Originations*. This Guide update aligns the remote online notarization policies in the *Selling Guide* with the changes that were published in LL-2020-03, though we added additional clarifications for a few of the policies. Highlights of the updates include:

- updated terms and conditions required for the use of remote online notarization, including additional details regarding system requirements;
- the list of states where remote online notarization is permitted; and
- for states not on the list, the ability for lenders to utilize remote online notarization as long as certain requirements are met.

Effective: The updated remote online notarization requirements became effective for all loans beginning Mar. 31, 2020. The update to the record retention requirements applies to all loans delivered with remote online notarization that were performed in accordance with LL-2020-03, including loans delivered prior to this Guide update and loans delivered under negotiated terms.

Project standards updates

Based on feedback and questions received from our lenders, we are clarifying some of our requirements for project standards. Specifically, we are providing additional guidance concerning

- condotel ineligibility,
- the proper treatment of projects subject to pre-litigation activities, and



- projects subject to recreational leases and mandatory memberships.

We have added some supplemental requirements to our list of *Ineligible Properties* criteria related to identifying condotels, including projects that are transient in nature, offer hotel-type services, voluntary rental pooling, or sharing of revenue from short-term rentals and related activities. We have also added back language previously removed from the Guide describing common condotel “red flags.”

It is increasingly common that state statutes require conflicting parties to enter mediation or arbitration prior to litigation to avoid the expenses and time associated with formal legal proceedings. We are reminding lenders that we require you to apply our standard Guide policies concerning litigation when the project is engaged in pre-litigation activities. This includes mediation or arbitration when there is a reasonable expectation that the activities will proceed to litigation. Mortgage loans for units in projects that are involved in litigation are generally not eligible for sale to us.

Finally, projects with amenities provided through a recreational lease agreement are ineligible for sale to us. We have added a list of “red flags” to the Guide to help lenders determine when projects may be subject to these arrangements.

Effective: These changes apply to loan applications on and after Dec. 7, 2020. These changes apply to current and future project approvals so lenders must also confirm that current approved projects comply with new requirements for all applications dated on and after Dec. 7, 2020. Condo Project Manager™ (CPM™) will not be updated at this time, so lenders must manually apply these changes, as applicable.

Third-party employment verification vendors

We have updated the *Selling Guide* to align with the recent update to the DU validation service to discontinue validation of employment and income using manual verification reports.

Lenders may continue to use third-party employment verification vendors to obtain income and employment information in accordance with the requirements outlined in our *Selling Guide*.

Effective: These changes will apply to any new manual verification report received by Desktop Underwriter® (DU®) on or after Oct. 17, 2020.

HomeReady mortgage loans and negotiated variances

Currently, the Guide states that unless specifically permitted, the HomeReady mortgage may not be used in conjunction with variances in the Lender Contract. Recognizing that HomeReady is now a well-established product, we are simplifying our Guide requirements to remove this restriction.

Effective: This change is effective immediately.

Clarifications based on Ask Poli insights

We regularly review the questions lenders Ask Poli to determine where the *Selling Guide* could be clarified. This month, we have updated the Guide to address common questions related to:

- Cash-out refinance transaction vesting requirements when there are multiple borrowers on a loan. Currently, the Guide states “the property must have been purchased (or acquired) by the borrower at least six months prior to the disbursement date of the new mortgage”, and it lists some exceptions. We clarified that this requirement applies to “at least one borrower” on the loan to address situations where there is more than one borrower.



- Use of gifts of equity. We clarified that gifts of equity may be used to fund all or part of the down payment and closing costs (including prepaid items) but may not be used towards financial reserves.

Lenders may also contact their Fannie Mae Account Team if they have questions about this Announcement. Have guide questions? Get answers to all your policy questions, straight from the source. [Ask Poli](#).

Impacted Topics

Section of the Announcement	Updated <i>Selling Guide</i> Topics (Dated Oct. 07, 2020)
Remote online notarizations	<ul style="list-style-type: none"> ▪ A2-4.1-03, Electronic Records, Signatures, and Transactions
Project standards updates	<ul style="list-style-type: none"> ▪ B4-2.1-03, Ineligible Projects
Third-party employment verification vendors	<ul style="list-style-type: none"> ▪ B3-2-02, DU Validation Service
HomeReady mortgage loans and negotiated variances	<ul style="list-style-type: none"> ▪ B5-6-01, HomeReady Mortgage (Deleted) ▪ B5-6-01, HomeReady Mortgage Loan and Borrower Eligibility (Renumbered)
Clarifications based on Ask Poli insights	<ul style="list-style-type: none"> ▪ B2-1.3-03, Cash-Out Refinance Transactions ▪ B3-4.1-01, Minimum Reserves Requirements ▪ B3-4.3-04, Personal Gifts ▪ B4-4.3-05, Gifts of Equity